

Ownership
Passionate,
commercial and
accountable.



Ownership means making it your business.



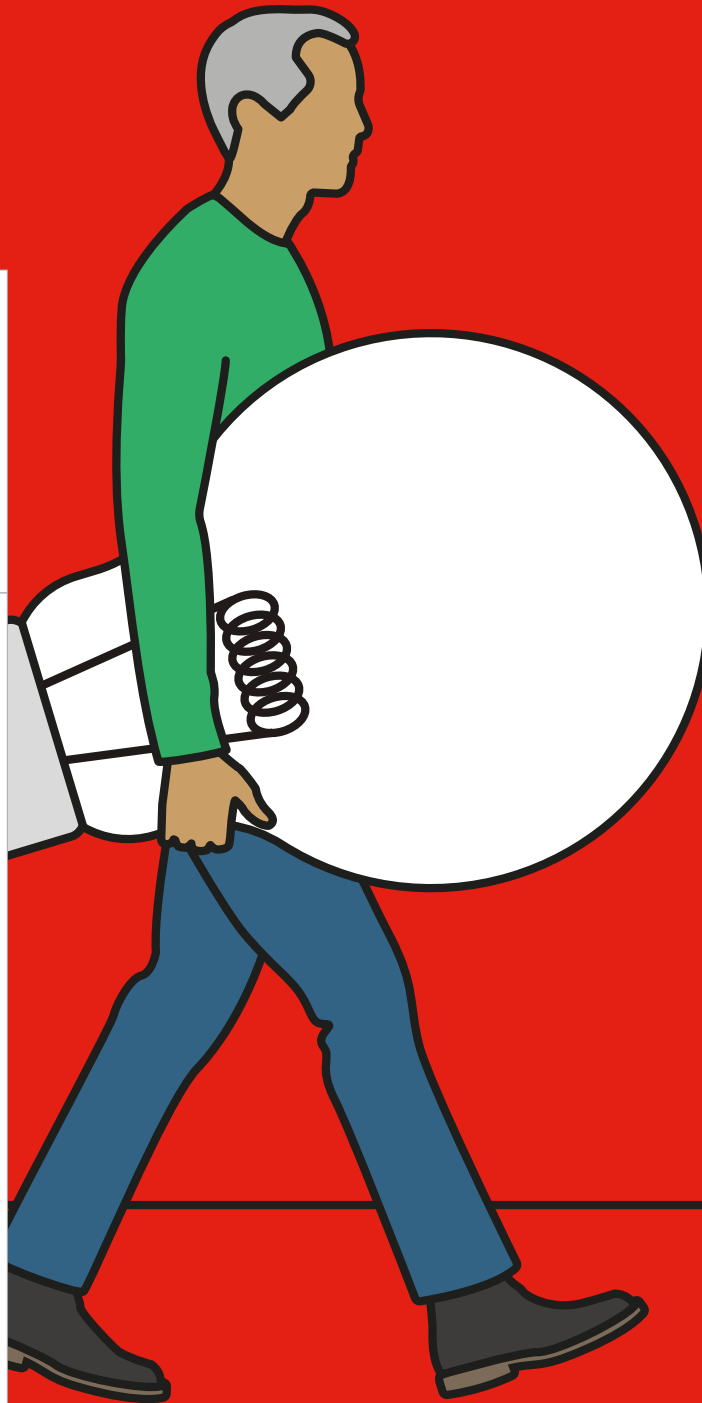
Why ownership is so important to us

Taking ownership means making it your business. It means being passionate, curious and restless, always looking for a better way of doing things. We strive to be the kind of people who take responsibility, are ambitious, accountable, pragmatic, tenacious and proudly high-achieving.

In a growing business like ours, taking initiative is something we expect of everyone, regardless of their role. It shows itself in a willingness to speak up, to confront problems, to avoid easy excuses, and to embrace hard work.

These are qualities we have always valued and nurtured. But in 2020, Covid-19 meant that instinct to step up and take ownership was more vital than ever before.

It is in difficult times that our values are tested, but it is also in difficult times that they prove the greatest guide. Throughout this report, you will find some examples of how we showed ownership in 2020.



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

We are headquartered in Bermuda, listed on the London Stock Exchange, and currently have over 3,000 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.

Chapter 1: A balanced business	
1	
3	Showing ownership in claims
4	Our key performance indicators (KPIs)
6	Our response to Covid-19
8	Our purpose, values, culture and vision
10	Our strategy and how we operate
12	Key risks and business priorities
14	Why invest in Hiscox?

Chapter 2: A closer look	
2	
17	Owning our understanding of the cyber risk
18	Chairman's statement
21	Chief Executive's report
34	Capital
36	Risk management
40	Stakeholder engagement
42	Environmental, social and governance (ESG)

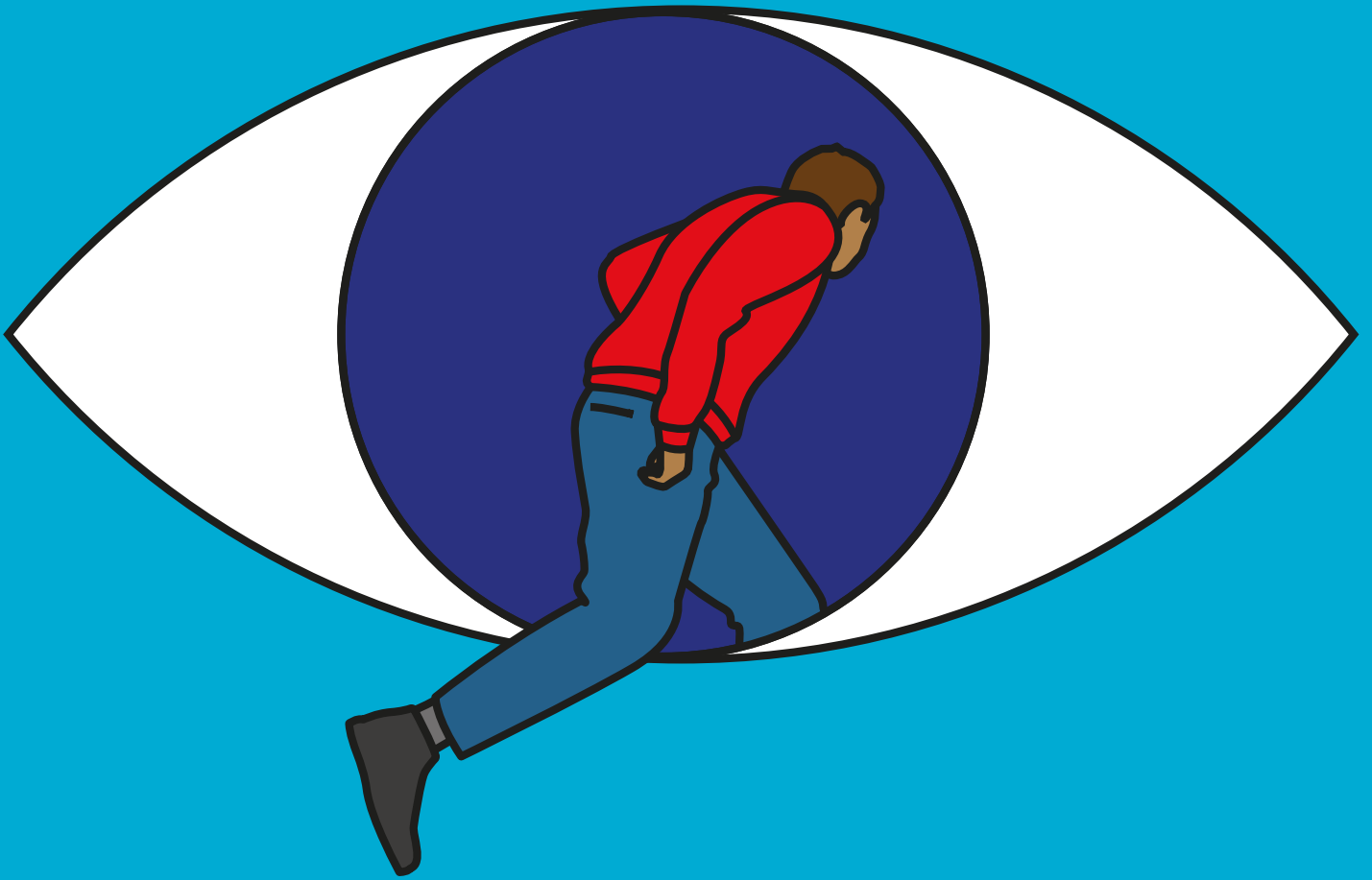
Chapter 3: Governance	
3	
51	Owning the Hiscox view of risk
52	Board of Directors
54	Senior management
56	Chairman's letter to shareholders
57	Corporate governance
63	Compliance with the UK Corporate Governance Code 2018
68	Nominations and Governance Committee report
71	Audit Committee report

Chapter 4: Remuneration	
4	
75	Taking ownership of employee well-being
76	Letter from the Chair of the Remuneration Committee
78	Remuneration summary
80	Annual report on remuneration 2020
88	Implementation of remuneration policy for 2021
90	Other remuneration matters
94	Remuneration policy

Chapter 5: Shareholder information	
5	
107	Owning our contributions to the local community
108	Directors' report
111	Directors' responsibilities statement
111	Advisors

Chapter 6: Financial summary	
6	
113	Owning our adoption of big-ticket digital trading
114	Independent auditor's report
122	Consolidated income statement
122	Consolidated statement of comprehensive income
123	Consolidated balance sheet
124	Consolidated statement of changes in equity
125	Consolidated statement of cash flows
126	Notes to the consolidated financial statements
187	Additional performance measures (APMs)
188	Five-year summary

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 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.



Be passionate, curious,
restless and always
look for a better way.



Showing ownership in claims

Among the many life-changing impacts of Covid-19, a postponed concert, deferred sports event or cancelled flight may seem trivial. But for businesses that rely on events for revenue, or individuals unable to return home or be reunited with family members, these cancellations can be devastating. Travel disruption was one of the earliest impacts of Covid-19, and required immediate ownership from our claims teams. In the first month of the UK lockdown, we processed over 200 travel claims, including repatriation costs for customers who were abroad when the Foreign & Commonwealth Office advised all British nationals to return home immediately.

Travel bans and restrictions were soon followed by event cancellations. Our UK team worked with small- to medium-sized businesses to provide support and find solutions. One example was Motorcycle Live 2020, a Birmingham-based show representing the best of the British motorcycle industry. With a global audience, cancelling the November show was not taken lightly, but as a result of our prompt claims resolution they were able to make an announcement in June, provide significant notice for attendees, and shift their efforts to promoting the 2021 event.

Our key performance indicators (KPIs)

The global pandemic impacted on profitability in 2020, but digitisation and exceptional commitment from our employees helped to deliver good underlying performance and our usual service levels.

Financial KPIs

Gross premiums written
\$4,033.1m

2020	4,033.1
2019	4,030.7
2018	3,778.3
2017	3,286.0
2016	3,257.9

Net premiums earned
\$2,752.2m

2020	2,752.2
2019	2,635.6
2018	2,573.6
2017	2,416.2
2016	2,271.3

(Loss)/profit before tax
\$(268.5)m

2020	(268.5)
2019	53.1
2018	135.6
2017	37.8
2016	480.0

Combined ratio
114.5%

2020	114.5
2019	106.8
2018	94.4
2017	98.8
2016	90.6

Basic (loss)/earnings
per share
(91.6)¢

2020	(91.6)
2019	17.2
2018	41.6
2017	8.1
2016	159.0

Ordinary dividend
0.0¢

2020	0.0
2019	13.8
2018	41.9
2017	39.8
2016	35.0

Net asset value per share
689.0¢

2020	689.0
2019	768.2
2018	798.6
2017	817.1
2016	792.5

Tangible net asset
value per share
601.5¢

2020	601.5
2019	670.6
2018	726.2
2017	751.5
2016	737.7

Return on equity
(11.8)%

2020	(11.8)
2019	2.2
2018	5.3
2017	1.0
2016	22.5

Non-financial KPIs

UK gender pay gap 21.2%

As a UK company with 250 or more employees, we are required to disclose our gender pay gap for UK employees, which we have done since 2017. Improving diversity and inclusion at Hiscox is a high priority, and we continue to focus on finding ways to reduce our gender pay gap.

2020	21.2%
2019	26.1%
2018	28.8%
2017	31.1%

Data only available from 2017.

London Market broker satisfaction 69%

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.

2020	69%
2019	78%
2018	76%
2017	66%
2016	76%

UK customer satisfaction 92%

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.

2020	92%
2019	89%
2018	90%
2017	90%

Data only available from 2017.

Employee engagement 68%

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 heavily influence our people strategy.

2020	68%
2019	71%
2018	74%
2017	77%
2016	78%

UK claims net promoter score 72

We measure and monitor the satisfaction of our customers at critical points during the policyholder journey, and especially in the event of making a claim. Our UK claims net promoter score is based on customers' responses as to the likelihood they would recommend Hiscox following a claims experience with us, on a scale where ten is very likely and zero is unlikely, and we are pleased with the stability of these scores over time.

2020	72
2019	75
2018	76
2017	67

Data only available from 2017.

US customer reviews using Feefo 4.8/5

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.

2020	4.8
2019	4.8
2018	4.7
2017	4.7
2016	4.8

Our response to Covid-19

Coronavirus affected us all in 2020 and as the situation evolves, so has our response. Our efforts are focused on four key areas; our customers, our employees, our operations, and our contribution to the communities in which we live and work.

Our customers



Set up dedicated Covid-19 claims telephone lines, as well as an online claims portal to process and pay business insurance claims as quickly as possible.

Extended cover in some lines such as home and motor, provided premium refunds for event insurance customers, waived 30-day cancellation periods for commercial insurance policyholders, and offered a range of financial concessions including payment holidays.

Provided new ways to quote, negotiate, bind and endorse within our London Market business, with over 90% of risks bound online using the Lloyd's Placing Platform Limited (PPL) during the third quarter of 2020.

113

"Hiscox extended my travel cover free of charge while I was stranded abroad and trying to get back to the UK. Your quick response and high level of communication helped ease an extremely stressful situation."



Reserved \$475 million in Covid-19-related claims around the world across our travel, events and business insurance lines.



Participated in an insurance industry test case with seven other insurers to provide clarity and certainty on the business interruption cover available to customers as quickly as possible.

22

Our employees



Retained all current roles during 2020; did not furlough staff or access any UK, USA or European government support schemes.

Transitioned successfully to home-working, with over 95% of our 3,000 employees working remotely.



"The mental health training made you reflect about your own well-being, as well as the well-being of your team, and gave me tools that I can have confidence will work."



IT home-working tips, additional training and drop-in sessions quickly upskilled employees on safe and secure remote working – from setting up new devices to using new tools for video conferencing and staying connected.

Took a 'pay it forward' approach to contract staff and suppliers by continuing to pay them during national and local lockdowns and office closures.

Delivered mental health training to over 1,000 employees and provided access to over 30 webinars led by mental health experts on topics such as sleep, resilience, home-schooling and living alone.

75



“Being in the business of risk means managing claims surges. Whether those surges are the result of a flood, a hurricane, or as we saw this year, a global pandemic, we have established and repeatable structures and processes for handling claims during large loss events.”



Grace Hanson
Chief Claims Officer

Our operations



Redeployed 27 employees to provide additional frontline support to ensure we could continue to effectively serve our customers at a time of increased demand.

Set up small and focused working groups to cover very specific operational elements, including return to office working groups and future ways of working teams.

Additional Board meetings were held during the year, covering specific topics such as the approval of May’s capital raise, the Company’s response to Covid-19 and the insurance industry test case.



“We began preparing our IT systems in January 2020 for the potential transition from our usual c.600 remote workers per week to over 3,000, and it paid off – with little to no systems downtime.”



Established four distinct workstreams, led by Executive Committee members, to manage our response, focused on operating effectively, underwriting exposure and customer service through claims, financial flexibility and resilience, and working with regulators and governments.

Donated over \$9 million to a range of good causes, helping some of those most affected by the global pandemic.

Founding supporter of the ABI’s Covid-19 Support Fund, the largest UK non-government fundraise to date, with over £100 million in voluntary contributions from the insurance and long-term savings industry pledged so far.

Our communities



Led the Bermuda reinsurance market in supporting the Bermuda Education Network by providing computers for home-schooling for over 300 children, and in raising more than \$550,000 for Bermuda’s King Edward VII hospital.



Established new partnerships with organisations that aim to improve SME access to funding and critical business resources, including Business in the Community in the UK and The Women’s Business Development Center in the USA.

“We are grateful to Hiscox USA for helping us nourish our frail-aged neighbours during this difficult time.”

Citymeals on Wheels
New York



Enabled 630 meals to be delivered to isolated elderly New Yorkers, 91,300 meals for Londoners facing food poverty and almost 10,000 meals for hard-working NHS staff.

Set up a ‘donate your commute’ initiative to encourage employees to use their commuting time to work to practically support a cause close to their heart.



Gave US employees \$100 to spend at a local small business of their choice, to support struggling businesses at a time of need.

Our purpose, values, culture and vision

We have had a strong set of values for decades which, along with our purpose, culture and vision, connect us to the business, our customers and each other.

We periodically review our purpose, values, culture and vision to ensure they are still true to the business and fit for the future. Our values are incredibly important to us; we are guided by them and we work hard to make sure they are lived, not paid lip service to. By doing so, we become a business that our customers can relate to, and we provide employees with a work environment in which they can flourish. In our 2020 annual global employee engagement survey, which was completed by almost 2,500 employees, 90% said they believe in our corporate values, 83% said employees are treated fairly regardless of disability, age or professional background, and 77% said they felt proud to work for Hiscox.

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 values





“I have worked at Hiscox for almost 20 years, and in all of the roles I have held – from Hiscox UK to Group functions, in claims, underwriting or operations – I have felt a strong and consistent culture. Our values are our common lexicon, no matter which part of the business you work in. They are lived and breathed, they are talked about often, and they inform decision-making at every level.”



Joanne Musselle
Group Chief Underwriting Officer

Our culture

We work hard to nurture our culture, and it is something we regularly measure and monitor to ensure we keep it alive. In 2020, we began designing new office space with our distinctive culture in mind and embodying our values of ownership, connected and human. Examples of this from our Bermuda and London offices can be seen in the images to the right. We are also establishing exciting new ways of working that balance both flexibility and collaboration and support our desire to attract and retain the best talent.

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.

Read more about how we measure and monitor culture.



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 balance

Hiscox's long-held strategy ensures we are not overly reliant on any one of our divisions for the Group's overall profits. We maintain a balance between big-ticket business – the larger premium, globally traded and catastrophe-exposed lines written through Hiscox London Market and Hiscox Re & ILS – and the smaller premium, locally traded, relatively less volatile business written through Hiscox Retail. In our big-ticket businesses, we shrink and expand according to the pricing environment. In retail, where our specialist knowledge differentiates us, we target growth of 5-15% per annum and invest in brand-building to continually strengthen our market position.

View a breakdown of our big-ticket and retail business for 2020.



A truly international 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 3,000 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.



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.



“I have admired Hiscox for 20 years as both a reinsurance partner and a competitor. For me, Hiscox is synonymous with underwriting acumen and product innovation, and its brand is iconic in our industry. The selection process was refreshingly clear and with a candour that you don’t often find, which really appealed to me. I am joining at an exciting moment – not only in the Company’s growth, but also as conditions in the reinsurance market improve and new opportunities present themselves.”



Kathleen Reardon
 Chief Executive Officer, Hiscox Re & ILS

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



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.](#)



Key risks and business priorities

As an insurance business, understanding and managing risk is part of our DNA. This is how we will balance risk and opportunity in 2021.

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 for the risk exposed, 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, or that for any other reason they may renege on a reinsurance contract or alter the terms of an agreement. The Group buys reinsurance as a protection, but if our reinsurers do not 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.

Liquidity risk

This relates to the risk of the Group being unable to meet cash requirements from available resources within the appropriate or required timescales, such as being

unable to pay liabilities to customers or other creditors when they fall due. It could result in high costs in selling assets or raising money quickly in order to meet our obligations, with the potential to have a material adverse effect on the Group's financial condition and cash flows.

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 implications from a legal, regulatory, reputational or customer perspective, 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 of our 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.

Read more on how we manage key risks in note 3.





“The past year has only accelerated the pace at which the insurance market is going digital, and Hiscox is uniquely placed to seize the moment. Our multi-year technology investments have given us the tools to deliver superb digital experiences for customers, brokers, partners, and employees alike. The opportunity is huge.”



Ben Walter
Chief Executive Officer, Hiscox Retail

Business priorities for 2021

Underwriting portfolio optimisation

In 2021, we will build on last year’s progress in optimising our underwriting portfolios and improving loss ratio performance through a continued focus on active portfolio management. This means addressing poor-performing lines, investing in top quartile business and taking decisive action when needed. We will examine where we can simplify underwriting processes, products and services; boost existing product and pricing controls; and formalise the flow of data and insight between underwriting, claims and actuarial.

[Read more on performance against our 2020 business priorities.](#)



Digitising and streamlining our operating model

We are becoming a more digital business, having invested \$500 million in technology over the last five years. In 2021, we will look to realise these efficiencies in order to seize the significant digital opportunity ahead, and begin our claims transformation journey. We will also focus on rigour in execution; rebalancing our global versus local capabilities to ensure we have the right knowledge in the right place, embedding consistent and repeatable processes, and pooling resources to benefit from our growing scale. This will result in some simplification within the business to improve the speed of decision-making and delivery.

Nurturing talent in new ways

After a year of lockdowns and home-working, 2021 is about unleashing potential and investing in talent. This will include embedding new working styles and supporting policies that balance the ability to work remotely with the culture, collaboration and energy of our office environments. It will also mean establishing robust plans in every part of the business for developing talent, more talent sharing across the Group, and focusing on our diversity as well as our succession pipeline at all levels.

Why invest in Hiscox?

A balanced business which provides opportunities throughout the insurance cycle.

A focus on creating sustainable and compounding shareholder returns

We aim to achieve this by balancing consistent capital returns to our shareholders with reinvesting excess capital into our business to ensure sustainable growth in the medium to long term. The challenging operating environment over the past 12 months has resulted in the Board's decision to suspend dividend payments. However, the Board believes that as our business delivers the 2021 business plan and as profits flow through, it may be in a position to consider paying a dividend with the 2021 interim results.



190%

total shareholder return over the last ten years, well above the FTSE All-Share of 72%.

A balanced business achieving sustainable growth

By running a well-balanced business, underpinned by a clear set of values and characterised by a disciplined approach to underwriting, our aim is to consistently grow the business in a way that is organic, sustainable and profitable. Covid-19 presented some unique challenges in 2020, but as the chart opposite shows, over the past 28 years the Group's controlled income has broadly risen in a steady manner, despite the industry's innate volatility. That growth has been fuelled by progress across all our divisions and regions.



8%

compound GWP growth over the last ten years in Hiscox Retail.

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.

\$1.6bn

returned to shareholders since 2010.

4%

compound GWP growth over the last ten years in big-ticket business.

\$32bn

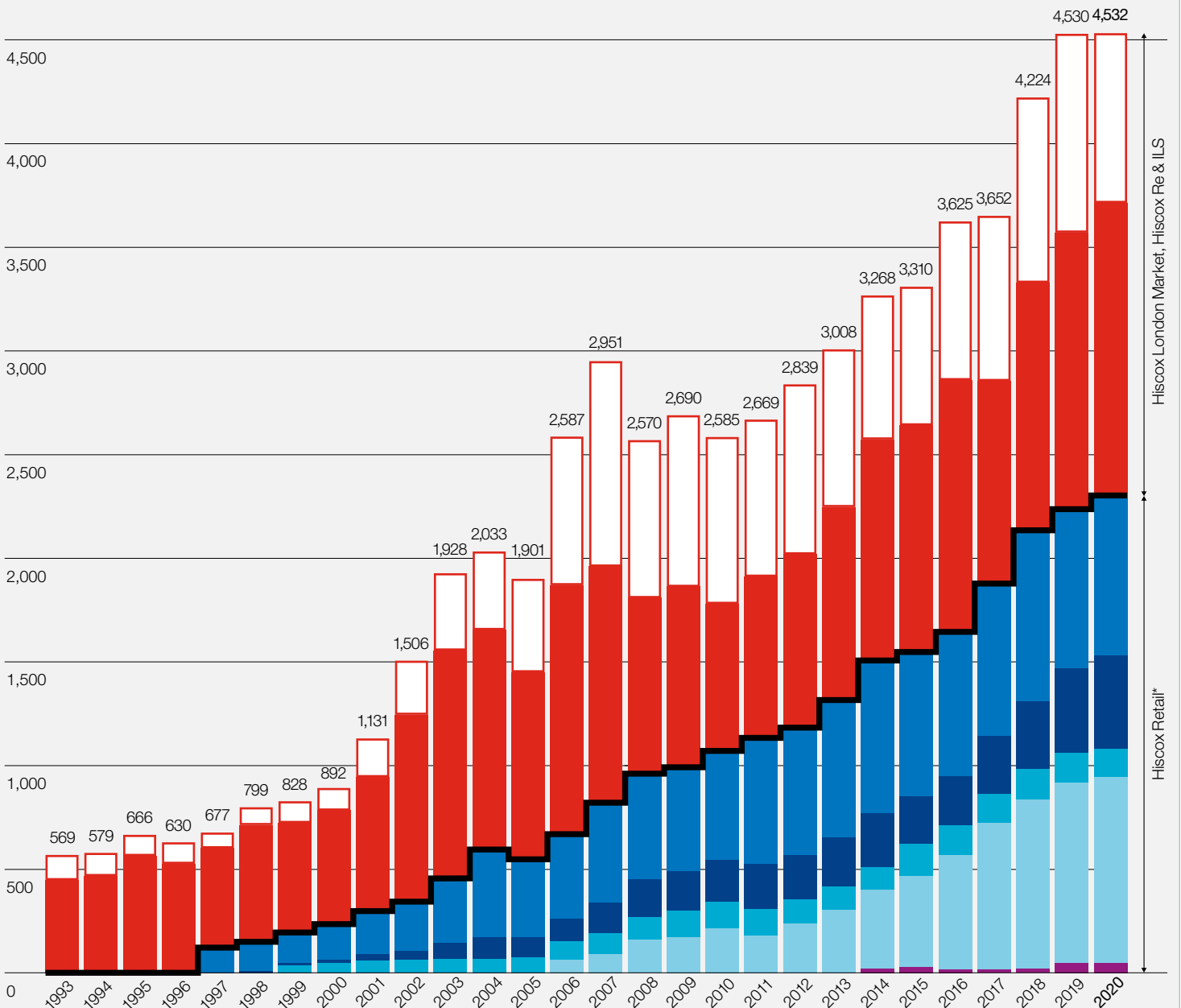
gross premiums written over the last ten years.



“We are an A-rated, well capitalised business, with the financial flexibility, operational strength and talent to drive sustainable long-term growth. In our Retail businesses, our established digital platforms are benefiting from the global shift to digital. In our big-ticket lines, our expertise and underwriting discipline positions us well as the rating environment improves.”



Aki Hussain
 Group Chief Financial Officer





We are a growing company and you need to grow with us.



Owning our understanding of the cyber risk

The cyber risk landscape is constantly changing, as new risks appear and known risks evolve, but it is vital that we stay ahead in this area. That means taking ownership of developing technical abilities and responding to industry trends. The Hiscox Technical Cyber Training Programme, which launched this year with industry-leading cyber security qualifications CompTIA Security+ and CompTIA Pentest+, ensures a consistent and repeatable approach to underwriter cyber training. This training, along with our cyber efforts around the world, are coordinated by our CyberClear Centre, which provides cyber-related education and advisory services to our cyber teams in every business unit, enabling them to deliver real-time information and external insights to our brokers and customers.

The Hiscox Cyber Insight Dashboard is an example of this melding of information and insight, as it combines third-party cyber security ratings with our own claims data analysis to create a profile of a business's cyber exposure. As well as allowing our underwriters to get a valuable overview of what could be a complicated risk and make informed pricing decisions, it also gives brokers and customers a unique insight into their cyber risk.

Chairman's statement



2020 got off to a good start and then came the global pandemic. Over my 48 years in the business, I have experienced most of the challenges that Mother Nature and mankind have thrown at the insurance industry, but Covid-19 and its repercussions have been one of the most testing. As a result, we expect to pay \$475 million in Covid-related claims net of reinsurance, the majority for event cancellation and the remaining for business interruption and other claims. These are large sums and disappointingly means that we will make a pre-tax loss for the year of \$268 million. Without Covid-19 we would have produced a profit of \$207 million.

The pandemic has also affected the way we work and how we interact with each other. In the field of business processing, our response to the pandemic has significantly accelerated our digital progress. For example, in 2020 our London Market business bound over 90% of its business digitally, which is a phenomenal change in the way business is written in the market. Our investment in IT systems and the superb dedication of all our employees meant that the transition to working from home was almost seamless. We all long for a return to more normal working but it is unlikely we will return to exactly the way it was.

Gross written premiums are stable at \$4,033.1 million (2019: \$4,030.7 million) and the combined ratio increased to 114.5% (2019: 106.8%). Excluding Covid-19 the combined ratio decreased to 97.0% (2019: 106.8%).

Our long-term strategy has been to build a balanced book of business. We have grown our small-ticket Retail business in the UK, Europe, USA and Asia to balance the big-ticket London Market and Re & ILS businesses written through Lloyd's and in Bermuda. We have seen strong profitable growth in Hiscox London Market as rates continue to surge ahead in the wholesale markets. Disciplined underwriting over the last three years as we weeded out underperforming business has meant that we are very well placed to take advantage of the improving conditions. In Retail, Hiscox Europe and the US direct and partnerships business, in particular, had good results, notwithstanding the pandemic.

In all segments we have benefited from our multi-year investment in new technology and digital tools. These include new underwriting platforms, quote and buy systems, robotics and APIs to connect us with business partners. Global lockdowns have accelerated our customers' adoption of online systems and this has driven a good underlying performance in Hiscox Retail which delivered growth of 3%. Customer numbers in our Retail business have grown by 10% to 1.3 million over the period.

For Hiscox UK, Covid-19 brought about a dispute with a number of our customers over the wording in some commercial property policies. Our commitment to putting things right for our customers has long been the cornerstone of the Hiscox brand. But for the first time, our reputation for paying claims quickly and without fuss came under intense scrutiny. We regret any dispute with a customer, but particularly where



“Disciplined underwriting over the last three years as we weeded out underperforming business has meant that we are very well placed to take advantage of the improving conditions.”

the policy wording was not as clear as it should have been. That is why we willingly agreed to be one of the group of insurers that assisted the FCA with the test case and we welcome the finality and certainty the Supreme Court Judgment has brought. We are now paying covered claims as quickly as possible.

In the face of unprecedented economic uncertainty, prudent capital management is critical to ensure we are able to continue to serve our customers, pay valid claims and grow where opportunity permits. We have taken a range of proactive actions, both before the onset of the pandemic and since, to further strengthen Hiscox's robust balance sheet and position us for growth.

In our first quarter 2020 trading statement, we announced an equity placing for up to 19.99% of our issued share capital to support growth opportunities and rate improvements in the US wholesale and reinsurance markets. This placement was successful and we raised £375 million. I would like to thank our shareholders for their support during a challenging time.

In April, we announced the decision not to pay the 2019 final dividend and that the Group would not propose an interim dividend payment. The Board has also decided not to declare a final dividend for 2020. The decision was not taken lightly by the Board, who are acutely aware of the importance of dividends as a source of income for our shareholders, including private shareholders many of whom own shares through pension funds. The Executive Directors will not be taking any cash bonuses until the dividend is reinstated. The Board believes that as our business delivers the 2021 business plan and as profits flow through, it intends, subject to Board approval, to resume paying dividends with the 2021 interim results.

The Group remains strongly capitalised against both our regulatory and rating agency requirements, and we are able to withstand a combination of severe downside scenarios including an active hurricane season.

People

Without the resilience of our 3,000 employees across the globe, we would not have overcome this challenging year. I would like to take this opportunity to thank everyone for their dedication, flexibility and, most of all, their hard work.

Over the years, we have employed some of the best minds in the industry, but like any business we must work hard to continue to attract and retain good people. I am immensely proud that in 2020 we welcomed over 300 new talented and ambitious individuals across the Group. Starting a new job during lockdown cannot be easy, and we have found new ways to welcome them.

One of our recent senior joiners has been Kathleen Reardon, our new Hiscox Re & ILS CEO. Kathleen has spent the last six years as CEO of Hamilton Re, where she built a reinsurance business from the ground up. She replaces Mike Krefta, who made an immense contribution to Hiscox during his 17-year tenure, most recently developing our ESG framework. We look forward to benefiting from Kathleen's depth of knowledge and presence in global reinsurance, and her experience of building businesses through the reinsurance cycle.

Diversity and inclusion

We are committed to creating a diverse and inclusive workplace and an environment where all employees are supported and can thrive. Under the leadership of Kate Markham, Hiscox London Market CEO and Group Executive Sponsor for D&I, we are improving the gender balance at all levels through a combination of key performance indicators, training, networking, mentorship and partnerships such as the Insurance Supper Club and the Independent Women in Insurance Network. This progress is reflected in our improved gender pay gap for the UK, and more diverse succession pipelines with at least one female successor for every leadership team role.

This work will continue in 2021, along with a sharpened focus on ethnicity and race as we look to make further progress against the action plans put in place this year in support of the #WeStandTogether movement.

Culture and values

We have been on the defensive in 2020 as our values have been tested and the trust we have painstakingly built over many years between us and our customers has been challenged to our dismay. It has been a particularly tough year, but during times like these we have to dig deep, go back to our core values, recognise where we need to improve and learn from the past.



“In all segments we have benefited from our multi-year investment in new technology and digital tools, including new underwriting platforms, quote and buy systems, robotics and APIs.”

Last year we shared the outputs of our most recent culture review; our refreshed values of courage, ownership, integrity, connectedness and being human. This year I was pleased to see them become embedded in our business and being lived. As it turned out, the timing of this exercise was fortuitous, and during a year of remote working at our kitchen tables and home offices, it is our values that have served as a golden thread throughout the Company.

Outlook

The challenges of a global pandemic have not withered the green shoots of a hardening market. Rates are rising across all three of our business areas, and the market is turning. Together with our multi-year investments in technology and digital tools, we have the infrastructure, talent and financial firepower to realise the significant opportunities ahead.

We can look forward with confidence as some normality returns globally in 2021 and we continue to focus on providing excellent service during these difficult times in all our markets.

A handwritten signature in black ink that reads "Robert Childs".

Robert Childs
3 March 2021

Chief Executive's report



2020 is a year few of us will forget as we all adapted to the impact of Covid-19 on our societies, our businesses and our lives. Adaptability and resilience were core to weathering the storm and few of us are untouched by the human tragedies it has caused.

Like many others, Hiscox adjusted well to the challenges of working from home, operating effectively to serve our customers and brokers, and contributing to our local communities. We established new partnerships to increase small business access to essential services and funding in both the UK and the USA, and supported a number of charitable endeavours – donating over \$9 million to good causes around the world. These included foodbanks, mental health and well-being charities, hospitals, and the Association of British Insurers' Covid-19 Support Fund. Our ability to do all of this was due to the hard work and dedication of our staff, who were all the while dealing with their own personal Covid-19 challenges. I would like to thank them all for their tremendous efforts this year.

In 2020, Hiscox reported a pre-tax loss of \$268.5 million (2019: profit of \$53.1 million). The Group combined ratio was 114.5% (2019: 106.8%). Excluding the impact of Covid-19 claims, Hiscox's combined ratio was 97.0%, reflecting the underlying improvement in performance in many parts of the Group and the benefit of circa \$80 million in expense savings.

Against a backdrop of sharp economic contraction across the markets in which we operate, the Group has maintained its revenues at \$4.0 billion. Hiscox London Market has had a stellar year, growing its revenues by 5.7% to \$1.0 billion, delivering a 93.7% combined ratio and profits of \$97.2 million. Hiscox Retail grew by 3.2% to \$2.3 billion and, excluding Covid-19 claims, delivered a combined ratio, within our guidance, of 97.7% and profits of \$162 million. Including Covid-19, Hiscox Retail's combined ratio is 120.0% and it made a pre-tax loss of \$237.6 million. Our direct and partnerships business across the world grew by 15% with total revenues approaching \$600 million as we benefited from the ongoing structural shift to digital. Hiscox UK maintained its revenues at \$756.1 million. The good performance in these segments offset the reduction in revenue in Hiscox Re & ILS as it showed discipline at last January's renewals, before benefiting from price rises in the rest of the year.

Hiscox's 2020 performance, while understandable, is not satisfactory. We have worked hard to address underperforming segments in our business through our Decile 10 action plans, and equally to grow our top-performing lines through our quartile 1 focus. The performance of Hiscox London Market shows the positive impact of these plans.



“To adapt to changing demands we created a talent exchange which saw a number of colleagues moving to new roles, temporarily or permanently, particularly to support our frontline.”

As we look into 2021, we see two trends which will benefit Hiscox. The first is the dramatic digital acceleration which will benefit our direct and partnerships business, as well as our London Market business where we bound over 90% of our risks through Lloyd's PPL platform in 2020 and already trade \$75 million through digital means with brokers and coverholders not located in London. The second is the rating environment that will drive strong return to profit by our London Market and Re & ILS businesses. This, in turn, will allow us to drive growth in our Retail division, making use of the inherent strength of our balanced business. It is this strategy that will position Hiscox to benefit from the generational shift to digital trading. This will allow us to serve more customers more effectively and the whole of Hiscox to prosper.

Global pandemic

As the pandemic spread across the countries in which we operate, we rapidly shifted to different ways of working. Our Chief Information Officer described it as instantly going from 35 offices to over 3,000. It was a smooth transition made simpler by past IT investments and the willingness of all staff to adapt, juggling roles as parents, carers and volunteers alongside their work. We committed to our staff that no one would leave the business in 2020 due to the economic impact of the pandemic. To adapt to changing demands we created a talent exchange which saw a number of colleagues moving to new roles, temporarily or permanently, particularly to support our frontline.

Paying claims in a fair and fast manner is part of our DNA. We have reserved \$475 million for Covid-19 claims across all lines. Claims teams across the Group mobilised and delivered for our clients. The Group's largest share of Covid-19 losses is for event cancellation and abandonment, where Hiscox proactively sold communicable disease cover, and many of these claims have already been paid.

The Group's second largest share of Covid-19 claims is from UK business interruption cover in commercial property policies. Unsatisfactorily for both our policyholders and ourselves, there was disagreement over whether the Hiscox policy wordings responded to the steps taken by the UK government to manage Covid-19. Our claims paying philosophy is deep-rooted: to pay claims quickly, fairly and in line with the intention of the policy. The underwriting intention of these property policies is to respond to local events affecting a firm's premises and not to nationwide steps taken to manage

the pandemic. When a claims decision is challenged it is the wording which determines the coverage in law, and there was room to question whether the Hiscox wording reflected this underwriting intent. We, of course, regret the impact of this disagreement on affected policyholders, and the adverse publicity we received as a result of it has been difficult for all of our stakeholders.

Similar disagreements occurred across the industry, and the Financial Conduct Authority recognised this by bringing an expedited industry test case before the UK courts on behalf of policyholders. Their ambition was to bring clarity to approximately 370,000 policies with over 50 insurers which were subject to dispute. In May, we agreed to participate in the industry test case process, along with seven other insurers and two customer action groups.

After the High Court decision in September, all parties involved had the option to appeal some or all of the Judgment to a higher court. Although Hiscox was ready to implement the High Court Judgment, once others appealed, we felt we had no option but to appeal and participate in the Supreme Court Hearing.

In January 2021, the Supreme Court Judgment largely confirmed the outcome of the High Court's ruling in respect of Hiscox that, except in rare circumstances, cover is restricted to Hiscox policyholders who were mandatorily closed. Approximately one third of Hiscox's 34,000 UK business interruption policies may respond as a result. The Supreme Court Judgment represents the final outcome of the industry test case, and there can be no further appeals. A process that would normally take a number of years was completed within nine months; almost lightning speed for any legal process of this complexity. We have begun paying claims in line with the Supreme Court Judgment. We have increased our claims handling capacity and the process of collecting information from customers who have cover and settling their claims is well under way.

Hiscox's exposure to potential business interruption claims arising from further UK government restrictions to contain the spread of Covid-19 has been running off at approximately 8% per month from June 2020, with residual exposure to be largely run off by the end of June 2021. Following the Supreme Court Judgment, the Group estimates exposure to restrictions already announced in 2021 to be less than \$40 million if restrictions extend to the end of June.

An actively managed business mix

Total Group controlled premium 31 December 2020: \$4,532 million
(Period-on-period in constant currency) 2020 GWP

Small commercial	Reinsurance	Property	Art and private client	Specialty	Global casualty	Marine and energy
+3%↑	-14%↓	-6%↓	-1%↓	-2%↓	+21%↑	+27%↑
\$1,627m						
Professional liability Errors and omissions Private directors and officers' liability Cyber Commercial small package Small technology and media Healthcare related Media and entertainment						
	\$845m					
	Property Marine Aviation Casualty Specialty					
		\$540m				
		Commercial property Onshore energy USA homeowners Flood programmes Managing general agents International property				
			\$456m			
			Home and contents Fine art Classic car Luxury motor Asian motor			
				\$441m		
				Kidnap and ransom Contingency Terrorism Product recall Personal accident		
					\$333m	
					Public directors and officers' liability Large cyber General liability	
						\$290m
						Cargo Marine hull Energy liability Offshore energy Marine liability

Hiscox Retail

	2020 \$m	2019 \$m
Gross premiums written	2,266.3	2,196.3
Net premiums written	1,986.8	1,957.5
Underwriting profit	(343.6)	36.5 [†]
Investment result	107.3	133.9
Profit before tax	(237.6)	169.2 [†]
Combined ratio (%)	120.0	99.3 [†]

[†]See note 4 to the financial statements.

We clearly regret the uncertainty and anguish that the dispute has caused to our customers, so it is important that we learn from this experience. The most important lesson is the need for clarity in wordings, to ensure intent is properly reflected in the policy detail. In addition, the customisation of policies has to be restricted to ensure that there is not a long tail of wordings serving very small numbers of customers. In 2021, we have commenced a series of initiatives aimed at addressing these issues.

Hiscox has undoubtedly suffered some brand damage this year. While I was reassured that net customer numbers in the UK remained stable in 2020, the route to restoring our brand is the same one which created it; providing flexible insurance cover to meet each customer's needs, paying each claim fairly and quickly, and doing this all with good customer service. Our reputation was built one risk, one claim, and one customer at a time, and with that same focus, in time, the brand will strengthen.

Hiscox Retail

Hiscox Retail comprises our retail businesses around the world: Hiscox UK, Hiscox Europe, Hiscox USA, Hiscox Special Risks and Hiscox Asia. In this segment, our specialist knowledge and retail products differentiate us and our ongoing investment in brand, distribution and technology helps us build a strong market position in an increasingly digital world.

Hiscox Retail wrote \$2.3 billion of premiums globally in 2020, representing more than half of our Group's gross premiums and almost three-quarters net of reinsurance. In the face of extremely challenging operating conditions, our Retail business grew its top line by 3.2% and delivered growth in four of its five business units even as the pandemic spread across the globe and caused economic havoc.

Hiscox Retail's 2020 result is a loss of \$237.6 million (2019: profit of \$169.2 million) and a combined ratio of 120.0% (2019: 99.3%). This result has been materially impacted by Covid-19. Excluding the impact of Covid-19 claims, Hiscox Retail delivered profits of \$162 million, the combined ratio is at 97.7%, which is in line with our guidance.

At the end of 2020 and in 2021, we are making two changes to improve the focus of Hiscox Retail. In late 2020, we restructured our Special Risks division, integrating its activities with Hiscox Europe, Hiscox USA and Hiscox

London Market. As a result, in 2021, \$100 million of Special Risks premium income from Retail will be reported within Hiscox London Market.

Over the past five years the digitally traded direct and partnerships segment has grown to be an increasing and more attractive part of Hiscox USA's business and it is where we see long-term growth opportunity. To accelerate this strategic shift, we have taken a decision to reshape our broker channel book, by exiting liability business for customers with revenues over \$100 million as well as all broker channel stand-alone general liability business. We will also reshape our cyber book to respond to adverse ransomware trends. These actions will result in a reduction of up to \$100 million in the USA broker channel which will be partially offset by continued strong growth in digital direct and partnerships business.

The combined effect of these changes will result in a one-time circa \$200 million reduction in Retail premiums. In addition, these changes together with more cautious loss picks adopted for 2021 to reflect the uncertain economic environment, and the inevitable time taken to address fixed costs as a result of this premium reduction, will mean our goal of reaching 90% to 95% Retail combined operating ratio range is expected to take to 2023. For 2021, we expect the Hiscox Retail combined ratio to be broadly in line with the 2020 result, excluding Covid-19 claims. We then expect an improving trajectory to 2023 as higher rates are recognised and the portfolio and expense management actions start to earn through.

The outlook for our Retail business is good and we are beginning to enjoy some positive rate momentum. We anticipate that 2021 Retail gross premiums will grow at the low end of our medium-term target range of 5%-15% on a like-for-like basis after allowing for \$200 million reduction in premiums. Thereafter the business is expected to return to a high single digits growth expectation as our direct and partnerships business becomes a bigger contributor to the top line. One of the accelerating trends during the pandemic has been the shift to digital. Approaching \$600 million of our 2020 Retail revenues came from our digitally traded direct and partnerships businesses, which now serves over 800,000 customers globally. Continuing historical growth trends, this business grew by 15% in 2020 with considerable room to grow further into an estimated 50 million target market of small, micro and nano businesses. We see this as a long-term opportunity for future growth and value creation.



“Approaching \$600 million of our 2020 Retail revenues came from our digitally traded direct and partnerships businesses, which now serves over 800,000 customers globally.”

Hiscox UK

Hiscox UK provides commercial insurance for small- and medium-sized businesses, media, events and entertainment as well as high net worth personal lines, fine art and luxury motor.

Hiscox UK delivered a resilient performance in 2020. Gross premiums written grew by 1.3% to \$756.1 million (2019: \$746.4 million), which is a good performance given the challenges of 2020.

Hiscox UK's commercial business, both direct and through the broker channel, has been the key driver of this performance. The business had strong growth in the first two months of the year, despite the headwinds caused by the IR35 tax changes which affect our direct commercial client base. We shrank between March and June due to the reduced level of business activity during the first lockdown. As the economy started to re-open over the summer period, we saw signs of recovery in July and August which has continued, and our direct commercial business had some of the strongest months in its history in November and December.

Our high net worth personal lines and fine art business has proven resilient. Revenues have been challenged as the team showed discipline on broker commissions. We also faced losses from Storms Dennis and Ciara in February as well as a large, individual fine art loss. We simplified our business by selling RH Specialist vehicle insurance as the cross-sell opportunities were fewer than expected. Our media, entertainment and events lines have faced real challenges; not only due to pandemic-related losses, but also as a result of dwindling media production and events activity.

We have modest growth ambitions for the year ahead given the broader economic uncertainties. We expect to see continued headwinds from the implementation of IR35 in April and ongoing subdued activity in media and events. Offsetting this will be growth in new start-ups, either voluntary or forced, which is a pattern we have seen in previous tough economic conditions. We remain convinced that this entrepreneurial activity and the shift to digital will power Hiscox UK's medium-term growth ambitions. In 2021, we will focus on service quality, operational efficiency through automation and simplification, reviewing our policy wordings, and investing in our broker relationships.

Hiscox Europe

Hiscox Europe insures high-value household, fine art and classic cars and commercial insurance for small- and medium-sized businesses.

The business delivered a strong performance, growing gross premiums by 9.5% to \$447.1 million (2019: \$408.4 million), against the reduction in economic activity across European markets as the pandemic hampered growth. It was profitable after providing for the Covid-19 losses it faced.

Germany remains the key engine of Hiscox Europe. Our German business was the largest contributor to premiums in the region and delivered very healthy growth of 15%, thanks to a strong performance in commercial lines, technology and cyber. Benelux also delivered strong double-digit growth, supported by a strong performance in Belgium, which grew 16%.

Our operations in France have undergone a major transformation over the last two years. To improve underwriting performance, particularly in high-value household and commercial property, we have exited some unprofitable lines in the portfolio. This resulted in subdued top line growth but improved bottom line profitability.

Spain and Ireland both experienced mid-single digital premium growth. In Spain, we continue to focus on successful partnerships with banks and other carriers, as well as technology and insurtech companies.

In Ireland, where our commercial lines book was a strong growth driver early in the year, we have seen a material decline in new business in line with the economic impact of Covid-19. Alongside other local insurers, the team has been supporting customers affected by Covid-19 with extended credit terms, premium adjustments and other financial measures.

Hiscox Europe expects to implement the first phase of a new technology platform during 2021, starting in Germany. This will then roll out to other territories in subsequent years. This new infrastructure will help us capture the growth opportunities we see in both the traditional broker and digital channels.

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. Gross written premiums grew by 2.6% to \$887.1 million

Hiscox London Market

	2020 \$m	2019 \$m
Gross premiums written	1,023.4	967.9
Net premiums written	570.9	504.6
Underwriting profit	40.7	(26.3) [†]
Investment result	56.6	50.6
Profit before tax	97.2	23.3 [†]
Combined ratio (%)	93.7	105.6 [†]

[†]See note 4 to the financial statements.

(2019: \$865.0 million). Planned reductions were made in the broker channel in private company D&O and media to improve our book, and these were offset by continued strong growth in our direct and partnerships small commercial business. This channel grew revenues by 22.7% in the year to \$337.7 million and now insures approximately 430,000 customers. Our operations have proven to be robust in the face of the pandemic. Despite the lockdown we continued to deliver excellent uninterrupted service, taking nearly one million calls with 80% answered within 20 seconds.

We have built this digital business since 2010 through ongoing investment in our brand, technology and operational know-how. Hiscox USA is now over half-way through a platform upgrade which will support future growth. We have pursued an omni-channel approach since we began, and so are less constrained by the channel conflict which affects some of our competitors. Our customers have a choice of buying our policies online end-to-end, by speaking to a Hiscox agent over the telephone, or alternatively through a third-party broker or insurance carrier partner. We follow an 'all roads lead to Hiscox' philosophy, ensuring we are available to do business with our target customers whichever way they choose, and it has served us well.

Our core target market are small, micro and nano businesses. We estimate there are in excess of 30 million businesses in the USA with revenues of less than \$25 million. This market is fragmented and these businesses are increasingly shifting to digital ways of buying their insurance. Hiscox already has approximately 430,000 customers in this segment, so we enjoy customer and data insights as well as economies of scale that are not available to others.

Over the past five years this segment has made up an increasing and more attractive part of Hiscox USA's business and it is where we see our long-term future. To accelerate this strategic shift, we have taken the decision to proactively reshape our book by exiting liability business for customers with revenues over \$100 million turnover as well as all broker channel stand-alone general liability business. Given the rising ransomware claims facing the market, we will also pull back in cyber until there is significant market re-rating combined with changes in terms and conditions. These actions will result in a reduction of up to \$100 million in the USA broker channel which will be partially offset by continued growth in our digital direct and partnership business.

Hiscox is already one of America's leading digital small business insurers. Our goal is to further cement our market position and to continue capturing a leading share of over 30 million small businesses that represent the market opportunity ahead of us.

Hiscox Special Risks

Hiscox Special Risks underwrites kidnap and ransom, security risks, personal accident, classic car, jewellery and fine art, with teams in multiple locations.

Hiscox Special Risks wrote \$127.8 million in premiums, broadly in line with the prior year period (2019: \$129.9 million). Existing business retention has been strong and while we have experienced heightened ransomware claims, this has been mitigated by reinsurance.

Our Special Risks products are increasingly purchased by our clients as part of a broader suite of crisis management products and to reflect this shift, we are moving to a geographic distribution-led approach. Under the new structure, locally-written kidnap and ransom business in the USA and Europe will be written through the respective Retail businesses, while a newly-created crisis management division within Hiscox London Market will handle business written in Guernsey, Miami and London. All business units will continue to work closely with long-time partner and market-leading response firm Control Risks.

The successful reorganisation of the Special Risks business was completed in the fourth quarter of 2020 and as a result Special Risks ceased to exist as a stand-alone unit from 1 January 2021. The Group's financial reporting in 2021 will reflect this change, resulting in \$100 million of premium from the Retail segment now being reported within Hiscox London Market.

Hiscox Asia

Our brand in Asia, DirectAsia, is a direct-to-consumer business operating in Singapore and Thailand that sells predominantly motor insurance.

In this challenging year, DirectAsia grew its written premiums by 26% to \$48.2 million. Thailand posted an exceptional 58% growth, with Singapore delivering a respectable 10% increase, despite the extended Covid-19 lockdowns which seriously impacted its travel and partnerships business. Thanks to this growth, underwriting discipline and diligent management, DirectAsia has seen a significant improvement in its combined ratio.

Hiscox Re & ILS

	2020 \$m	2019 \$m
Gross premiums written	743.4	866.5
Net premiums written	192.7	216.7
Underwriting profit	(67.7)	(144.7) [†]
Investment result	33.6	38.5
Profit before tax	(35.1)	(107.6) [†]
Combined ratio (%)	131.8	169.9 [†]

[†]See note 4 to the financial statements.

Hiscox London Market

Our London Market business is the star performer of 2020. It continues to use the global licences, distribution network and credit rating of Lloyd's to insure clients throughout the world. The team's focus over the past several years has been on improving portfolio quality in a rising market so growth is modest at 5.7%, taking gross written premiums to \$1,023.4 million (2019: \$967.9 million). A focus on quality has been rewarded with profits of \$97.2 million (2019: \$23.3 million) and a net combined ratio of 93.7%, a 11.9% improvement on 2019. More importantly, we have delivered an underwriting profit of \$40.7 million (2019: loss of \$26.3 million), even after including \$13 million of Covid-19-related losses.

This improvement reflects the hard work under a '3-1-1' plan. Here, we have sought to reduce the loss ratio by 3%, reduce commissions by 1% and reduce the expense ratio by 1%. This was initiated several years ago and its implementation has steadily become more rigorous, requiring a combination of organisational and orchestration skills and effective risk by risk negotiations. This has seen us drive rate improvements of 20% in 2020, with 16 of our 17 lines enjoying price rises and ten lines benefiting from double-digit rate increases. This is now the fourth year of rate increases with cumulative increases of 43% since 2017.

The most significant rate improvement continues to be seen in casualty lines such as US public company D&O and US general liability, alongside terms and conditions improvements, and reduced line sizes. In the marine and energy book trends are positive, with rates increasing by 24% in cargo, and 20% in hull.

In our property lines we saw rate growth of 20% in major property where we grew our average line size over the year. We have reduced exposure in household and commercial binders through non-renewal of contracts, increased rates and by restricting aggregate in certain counties. These will flow into our results in 2021 and 2022 as new terms and increased rates feed into the portfolios. As part of this optimisation, we undertook a large data project which allowed us to match historic policies and claims at a risk level. Going forward, we will aim to do this on a quarterly basis, so we can target rate changes and aggregate management to use our capital in the most effective way.

Hiscox London Market is also making steady progress in its own digital initiatives. These plans have two strands. The first is through supporting the Lloyd's market initiatives, where we bound over 90% of our risks through PPL, the Lloyd's market digital platform. The second involves digital trading with brokers and coverholders not located in London. FloodPlus allows us to price risks in real-time with US coverholders, managing aggregate and pricing on a day-to-day basis, especially important when a river is in flood. Across all lines we traded almost \$75 million of business through non-traditional digital means. Our medium-term ambition is to grow this steadily to \$250 million. We see this as a critical step to allow Hiscox London Market to concentrate most of its underwriting talent in London, while using digital tools to unlock growth opportunities around the world.

In 2021, Hiscox London Market will benefit from the continuing hardening market. Thanks to Syndicate 33's stamp capacity of £1.7 billion we have sufficient headroom to do this. We will judiciously increase our aggregate exposures, with most growth coming from rates. As a result, we expect London Market growth in 2021 in mid to high single digits delivered at improving margins. The compounding impacts of rate and portfolio improvements in recent years will, we believe, drive attractive multi-year profitability.

Hiscox Re & ILS

The Hiscox Re & ILS segment comprises the Group's reinsurance activities in London and Bermuda and insurance-linked security (ILS) activity through our family of funds in Bermuda.

2020 saw gross written premiums reduce by 14.2%, to \$743.4 million (2019: \$866.5 million), driven by a disciplined approach to price inadequacy at the start of the year. This includes \$15.1 million of reinstatement premiums (2019: \$87.2 million). Hiscox Re & ILS made a loss of \$35.1 million (2019: loss of \$107.6 million). Excluding Covid-19 claims it made a profit of \$28.4 million; this is a good result considering the high frequency of North American catastrophe and weather-related events in 2020 and adverse developments in exited healthcare and casualty business.

After a cautious start at the January renewals, we returned to growth as the market began to harden from April onwards. Overall, we have achieved a 12% average rate increase, with positive rate momentum carrying through to January 2021 renewals.



“We have made strides towards a data-based operating model for claims by quadrupling the data analytics team, driving deployment of machine learning tools and launching a fraud mitigation tool in the UK.”

During the year we have been reshaping the book to focus where we see the most opportunity. In US property catastrophe and excess of loss, we adjusted the portfolio away from the more capital-intensive nationwide covers and Florida programmes. In the international catastrophe book, we secured rate increases of 16% in Japan, in line with an updated view of typhoon risk which reflects two active years for Japanese windstorm losses. Net exposure in our retrocession book was up 65% as we sought to take advantage of rate improvements of over 20%.

In 2020, Hiscox ILS assets under management declined slightly to \$1.4 billion (2019: \$1.5 billion). The slight reduction on the previous year is mostly due to redemptions we reported last year.

In 2021, Hiscox Re & ILS will benefit from the deployment of some of the proceeds from the Group's equity raise earlier in the year. We expect that our net written premium growth will exceed growth in gross written premiums as Hiscox Re & ILS retains more risk in the strongest reinsurance market in several years.

Claims

Claims experience in the year has been mixed. We have benefited from some frequency reduction due to the lower levels of activity during the lockdowns. At the same time, we saw a number of large marine liability losses, exposure to the Beirut explosion, floods in the UK, some US tax-related professional liability claims as well as claims from multiple Atlantic hurricanes. All of these claims, and our normal attritional and large losses, together with Covid-19-related claims in all territories, have been handled by our claims teams in their usual award-winning manner. I would like to thank them all for their professionalism in very challenging circumstances.

Our claims teams took the lead in managing our participation in the UK industry test case, and now that it is over, are managing our claims settlement processes. We have created significant surge capacity, drawing on resources in the UK, USA and Australia to make sure we have the capacity to deal with all claims fairly and quickly.

During the year we made material progress in claims transformation. In the USA we completed the insourcing of some of our legal work, and where we do rely on external lawyers, we have renegotiated hourly rates and consolidated

vendors to make this more cost-effective. This is part of our global initiative to create a single vendor management platform integrating all external providers across our markets, which has already led to significant panel cost savings in the USA and Europe.

We have also made strides towards a data-based operating model for claims by quadrupling the data analytics team, driving deployment of machine learning tools to analyse our loss portfolios and launching a fraud mitigation tool in the UK. In 2020, we built a quality assurance portal to automate the claims control environment which is already live in the USA and will be deployed to the rest of the business in 2021.

The high quality of the Hiscox claims experience has been recognised by brokers in the London Market and across the UK. The Lockton Claims Survey ranked Hiscox as the number one performer out of 37 peer insurers. AON's 2020 'Voice of the Client Claims Insights Global' rated Hiscox's net promoter score as 15th best out of 475 participating insurers. Hiscox was also one of just two insurers to be awarded five stars in Insurance Times' 2020 Personal Lines Ratings.

Information technology and major projects

Over the past five years we have progressively been replacing our core systems which has allowed us to benefit from the digital shift accelerated by the pandemic. In the USA we implemented the first two phases of our new technology platform in the direct and partnerships business. We expect to complete the programme by the end of the third quarter in 2021 allowing us to continue marching towards the significant digital SME opportunity. In the UK, we have steadily improved our portfolio underwriting capability and 90% of our new and renewal business is now handled through automated underwriting rules. In Europe we are working on our technology replacement programme, with implementation beginning in Germany during 2021. We have also been working on interfaces to connect our partner's systems to ours. Across the world we are now connected to 158 partners in this way.

In addition to systems supporting our frontline teams, we are close to the end of our finance transformation programme. This programme has replaced many legacy systems and processes allowing our finance team to keep pace with the scale of business we are now, and the growth to come. The next finance focus is preparing for IFRS 17.



“We are close to the end of our finance transformation programme, which will allow our finance team to keep pace with the scale of business we are now, and the growth to come.”

Strategic focus

Total Group controlled income for 2020
100% = \$4,532 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.

Reinsurance
20%

Large property
11%

Casualty
7%

Specialty – terrorism, product recall
5%

Marine and energy
6%

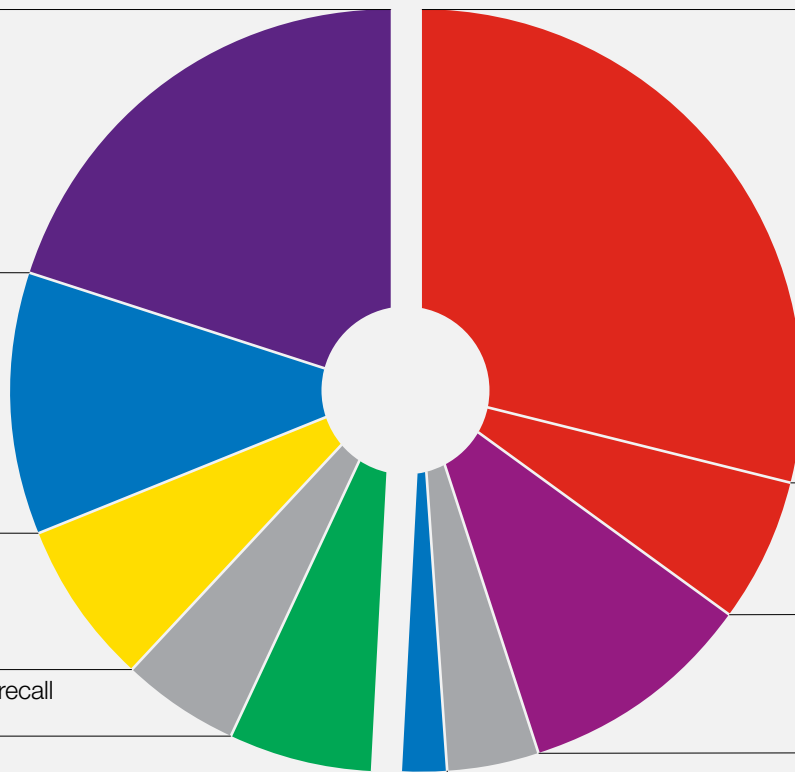
Small commercial
29%

Tech and media casualty
6%

Art and private client
10%

Specialty – kidnap and ransom, contingency, personal accident
4%

Small property
2%





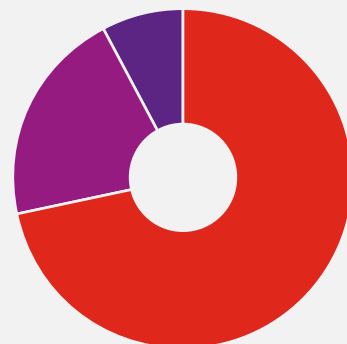
“We manage our investment portfolio to provide sufficient liquidity to pay claims, and capital to support the underwriting business, while generating strong risk-adjusted returns.”

Portfolio – asset mix

Investment portfolio \$7,630 million as at 31 December 2020

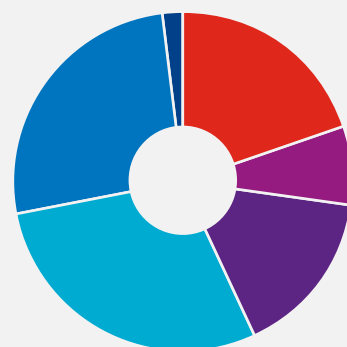
Asset allocation

● Bonds	71.7
● Cash and cash equivalents	20.7
● Risk assets	7.6



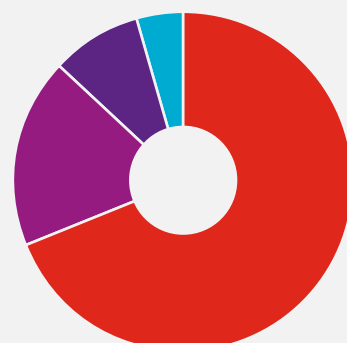
Bond credit quality

● Gvt	19.9
● AAA	7.5
● AA	15.7
● A	29.0
● BBB	26.0
● BB and below	1.9



Bond currency split

● USD	68.9
● GBP	18.1
● EUR	8.8
● CAD and other	4.2





“Our current capital position is sufficient to support our 2021 business plan, allowing us to take advantage of the hardening market in our big-ticket businesses.”

As Hiscox has grown organically, we have often introduced complexity to win every piece of business and handle every customer need. This means we have too many legal entities, too many wording variations, too many sub-scale business relationships and too many suppliers. Under the rubric of the Hiscox simplification programme we are addressing these and other unnecessary complexities in 2021. We expect the savings generated will help deliver on our plan to reduce our expense ratio by 1% a year over the next two-to-three years. It will also ensure our business is easier to manage and control.

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. Despite the turbulence of 2020, the portfolio strategy helped us navigate the volatile markets well. The investment returns for 2020 were very robust at \$198 million (2019: \$223 million) after investment expenses, a return of 2.8% (2019: 3.6%).

After a difficult start to 2020 we saw a significant improvement in market sentiment in the second half of the year. Incremental additions to risk assets during the depths of the crisis have performed well and helped boost returns for the year. Encouraged that the end of the pandemic is in sight, the assets of the most affected sectors of the economy surged on the expectation that economic activity may improve markedly in 2021. We have subsequently taken profits in some of our risk asset positions.

Corporate bond spreads have now retraced much of the Q1 2020 widening given the backdrop of ongoing fiscal and monetary policy support. Given the high quality of corporate bonds held, we remain comfortable maintaining our current credit exposures. While equity markets have rebounded generally, we have seen significant divergence in valuations between regions and sectors and so maintain modest exposure to selected risk assets.

While the full year 2020 investment return is well ahead of the original forecast, more meagre investment returns should be expected for 2021. Government bond yields are close to zero, while credit spreads for high-quality bonds are now at

pre-Covid levels, reducing yields materially. The current yield to maturity on the bond portfolio is at its lowest ever at just 0.4% (December 2019: 1.6%).

We continue to look through ongoing volatility to steadily invest into positions where valuations present attractive long-term risk and capital adjusted outcomes.

Capital and balance sheet strength

Hiscox's approach to capital management is to ensure our balance sheet is sufficiently robust to absorb large shocks, whether due to insurance losses or economic stress, while maintaining the financial flexibility to seize opportunities as they arise.

Our capital position during the year was bolstered by a £375 million non-pre-emptive equity placement. I would like to thank our shareholders for the support they provided to our business during a very challenging time. The capital raised externally was supplemented by action taken internally during the year to generate around \$65 million of capital saving by combining our two Bermuda-based reinsurance carriers.

At the end of the year, the Hiscox Group estimated a regulatory solvency ratio of 190%, after absorbing our 2020 loss and the second stage of the Bermuda Monetary Authority's strengthening of its solvency regime. Over the period 2019 to 2021 the Bermuda Solvency Capital basis is being strengthened, resulting in higher capital requirements; to the end of 2020 this has had a zero percentage point impact on the Hiscox coverage ratio. The final stage of basis strengthening will occur in 2021 and is expected to reduce the coverage ratio by 10-15 percentage points. This basis strengthening is expected to be funded by organic capital generation. We remain A-rated by S&P and A.M. Best and A+ by Fitch.

We have a toolset of proactive capital management measures at our disposal which can help provide capital relief, reduce volatility and bolster our balance sheet strength further. In 2020, ahead of the North America hurricane season, we purchased approximately \$100 million of additional catastrophe reinsurance in the form of industry loss warranties. We are also looking at legacy reinsurance solutions and may execute one or more of these in 2021 if the cost and capital efficiency they provide is attractive.



“Hiscox London Market’s stellar performance supported by profits in Hiscox Europe and Hiscox Special Risks and better-than-expected investment returns, mitigated the impact of the pandemic.”

Our current capital position is sufficient to support our 2021 business plan, allowing us to take advantage of the hardening market in our big-ticket businesses. These businesses already have scale, and as can be seen from Hiscox London Market’s 2020 result, a judicious balance of exposure increases, portfolio optimisation and compounding rate rises leads to attractive returns. We anticipate that the strong return to profit of our big-ticket businesses will allow us to drive growth in our retail business. This makes use of the inherent strength of our balanced business and allows us to position Hiscox to benefit from the generational shift to digital trading in the small business sector around the world.

In the face of the uncertainty arising from Covid-19 and the losses it generated, the Board took the decision not to pay a 2019 final or 2020 interim dividend. In view of the full year loss and a desire to have capital to deploy into a strong market, the Board has also taken the decision not to pay a 2020 final dividend. The Board believes that as our business delivers the 2021 business plan and as profits flow through, it will, subject to approval at the time, resume paying dividends with the 2021 interim results.

Environmental, social and governance

Across the world there has been heightened scrutiny and expectations on companies to consider environmental, social and governance factors in their day-to-day business. As insurers we are keenly aware of the impact of climate trends and volatility on the risks that we face and take them into active consideration in the pricing and management of our exposures. In the 2020 update of the Hiscox view of risk, we adjusted it to account for recent trends in severe typhoon activity and will keep reviewing climate-related activity on a peril-by-peril basis. We also have taken proactive steps to support those at risk from climate impacts through insurance products like FloodPlus, and in reinsurance, FloodXtra.

Hiscox has long sought to reduce its own carbon footprint, targeting a 15% real-term reduction in our Scope 1, 2 and 3 carbon emissions per FTE by the end of 2020, relative to 2014. We have achieved this target, completing a 45% real-term reduction in Scope 1, 2 and 3 carbon emissions per FTE over that period. Covid-19 has had a one-off positive impact by driving down business travel, currently one of the biggest contributors to our emissions, and we will assess what level of business travel is right for us going forward, though as a global business it cannot be eradicated completely. We will also set new near- to medium-term carbon emission reduction

targets in 2021, aligned to the Science Based Targets initiative, and define our action plan for limiting emissions. This will support our established carbon offsetting programme which ensures we operate in a carbon-neutral manner, having been carbon neutral through offsetting since 2014.

With the publication of these results Hiscox has announced its commitment to steadily reduce and eliminate by 2030 the insurance and reinsurance of coal-fired power plants and coal mines; Arctic energy exploration, beginning with the Arctic National Wildlife Refuge; oil sands; and controversial weapons such as land mines. These commitments are aligned with the Lloyd’s ambitions announced in December and will take effect from 1 January 2022, though their implementation has already begun.

Hiscox is a member of ClimateWise, a constituent of CDP, the Dow Jones Sustainability Index and FTSE4Good, and our assets are managed by firms that are aligned with the UN-supported Principles for Responsible Investment. We are committed to being a sustainable business and will ensure that our business practices continue to evolve to support the transition to a net-zero world.

Our staff are involved in a myriad of environmentally-focused activities. These include beach clean-ups in Bermuda, creating virtual reality experiences that allow our brokers to experience a Category 5 hurricane, promoting recycling initiatives in our offices, and establishing new partnerships that detect water leaks early; thereby reducing water wastage in customer’s homes. I am proud of these efforts, and more information on them is available in our 2020 climate report on our corporate website. This complies with our Task Force on Climate-related Financial Disclosure obligations.

In a year of significant trauma for the communities in which we operate, Hiscox increased its social support significantly. We supplied meals to NHS staff at The Royal Marsden Hospital, together with one of our UK catering partners; supported small businesses in the USA by giving staff \$100 each to spend locally; funded ventilators at hospitals in Guernsey and Bermuda; provided 4,000 nights of emergency accommodation for vulnerable young people; and contributed to the Association of British Insurers’ Covid-19 Support Fund. We supported good causes in every country where we operate during the year and donated over \$9 million in total.

We also took additional steps to support our employees this year. WeMind, Hiscox's mental health and well-being employee network, has been very active, providing new mental health training and expert webinars and promoting the services of our in-house mental health first aiders. Our other employee networks, such as our Parents and Caregivers network, have also found new ways to connect and collaborate.

Finally, in 2020, we launched an updated Hiscox Group Governance Framework which clarified interactions, expectations and decision making across Hiscox Ltd, the Group and business units. This structure will prove useful to ensure that the Group acts in concert and clear prioritisation can be taken, with individual Boards having ownership and accountability for critical decisions in a challenging time and ensuring compliance with local regulatory expectations.

People

2020 has been a truly tough year and it is our people who have persevered against all odds, showing resilience, adaptability and determination. Thanks to the individual and collective efforts of over 3,000 staff, Hiscox has weathered the storm and I can only thank each and every one of them.

One of the signs of a hardening market is increasing competition for talent. Hiscox has invested in both new and experienced underwriters and we have been nurturing expertise across all ranks of the organisation. This has helped create our culture and reputation in the market. We are, and want to continue to be, a great place to work for the ambitious and talented, so it is no surprise that we are on occasion targeted by others. Hiscox has business maturity and market presence, so the market conditions that make start-ups attractive investments, apply equally to us on a larger scale. Rewards will follow as our business delivers on its plans.

In October, the Group announced that Kathleen Reardon had been appointed as CEO of Hiscox Re & ILS. Kathleen has spent the last six years as CEO of Hamilton Re and she brings a deep understanding of the market, a huge amount of underwriting expertise, a proven ability to build a business across the cycle and develop talent. She succeeded Mike Krefta who decided to take a career break after 17 years at Hiscox and leaves with our thanks and good wishes. Mike rose through the Hiscox ranks from an entry-level position in a career which spanned both Retail and big-ticket, operations, analytics and underwriting and London and Bermuda. In addition, Mike was our ESG Executive Sponsor and we owe him a debt of gratitude, for leading and at times cajoling our response to inform the proactive, forward-looking approach we have today.

We continue to attract talent at all levels, including through our graduate scheme in the UK, USA and Germany and our UK summer intern programme which changed to a virtual programme in 2020. We are pressing ahead with similar programmes for 2021, with a focus on reaching new and diverse talent pools. Hiscox has a diverse set of leaders at the Executive Committee, business unit CEO and functional leader level, but this wanes in the middle ranks. We are committed to addressing this both through adapting our internal processes and through partnerships in the UK

with The Bright Network, The Brokerage, Afro Caribbean Insurance Network, and targeted recruitment in the USA, Bermuda and Europe with our existing recruitment partners. We also have internal schemes to continue to train and develop mid-ranking staff to reach our target of filling 50% of all promotions with internal candidates.

All these efforts will ensure that Hiscox remains a desirable and fulfilling place to work.

Outlook

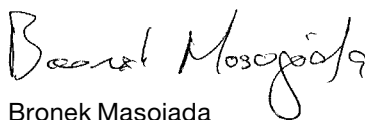
In 2021, we expect to see the benefits of our balanced business strategy asserting itself in a proactive manner after the past four years where the benefits have been mostly defensive. In 2017-2019, profits in our Retail business offset the pressures of the bottom of the cycle faced by Hiscox London Market and Hiscox Re & ILS. In 2020, Hiscox London Market's stellar performance supported by profits in Hiscox Europe and Hiscox Special Risks and better-than-expected investment returns, mitigated the impact of the pandemic.

In 2021, I expect our big-ticket businesses to perform well, thanks to the increased capital allocated to them, their judiciously positioned portfolios, and the benefit of compound rate increases. Hiscox London Market and Hiscox Re & ILS are in their best markets for almost half a decade and their focus is on driving profits over maximising scale. This will provide good returns for shareholders and allows our Retail businesses to navigate the economic uncertainties within their respective countries of operation.

I also expect that we will see good growth of our Retail digital endeavours, focused as they are on the one-to-ten person firms which grow in number as people leave larger firms and set up in business themselves. Hiscox Retail will face headwinds from the 10-250 person firms who are likely to be most affected by the uncertainty of a post-pandemic economy and our own portfolio improvement activity.

Where we see opportunities we will use some of the big-ticket profits to drive our Retail businesses forward with investments greater than they can afford alone, making sure we can capture more than our fair share of the structural shift to digital in the small business segment.

Our priorities next year are to ensure we maintain the strict discipline of underwriting for profit, streamlining our model to simplify the business and, most importantly, energising our teams. 2021 has started well and our sense of ownership and connectedness will allow us to thrive as we capitalise on the opportunity that lies ahead of us.



Bronek Masojada
Chief Executive Officer
3 March 2021

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 2020 available capital was \$2,431 million (2019: \$2,276 million), comprising net tangible asset value of \$2,055 million (2019: \$1,912 million) and subordinated debt of \$376 million (2019: \$364 million).

The Group can source additional funding from its borrowing facilities which comprise a revolving credit and Letter of Credit facility as well as a Tier 1 Funds At Lloyd's facility. Standby funding from these sources comprised \$946 million (2019: \$800 million), of which \$524 million was utilised as at 31 December 2020 (2019: \$50 million).

In order to take advantage of opportunities for profitable growth in wholesale and reinsurance markets, as a result of capital contraction and rate improvement across the market following the uncertainty caused by Covid-19, the Group raised £375 million in capital in May 2020 in the form of an equity placement. This has provided additional flexibility throughout the year to respond to growth opportunities and rate improvement, particularly in big-ticket lines.

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 A ratings. Being an A-rated business is important to us, and our intention is to maintain our current strong ratings.

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.

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 2020 BSCR solvency coverage ratio is 190%, which includes the second stage of changes to the BSCR standard formula being phased in by the BMA over a three-year period, which began in 2019. The changes are expected to reduce the Group's BSCR solvency coverage ratio by an estimated ten percentage points over the next year.

The Group expects to further mitigate the impact of the changes to the BSCR standard formula through ongoing capital generation over the remaining year 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.



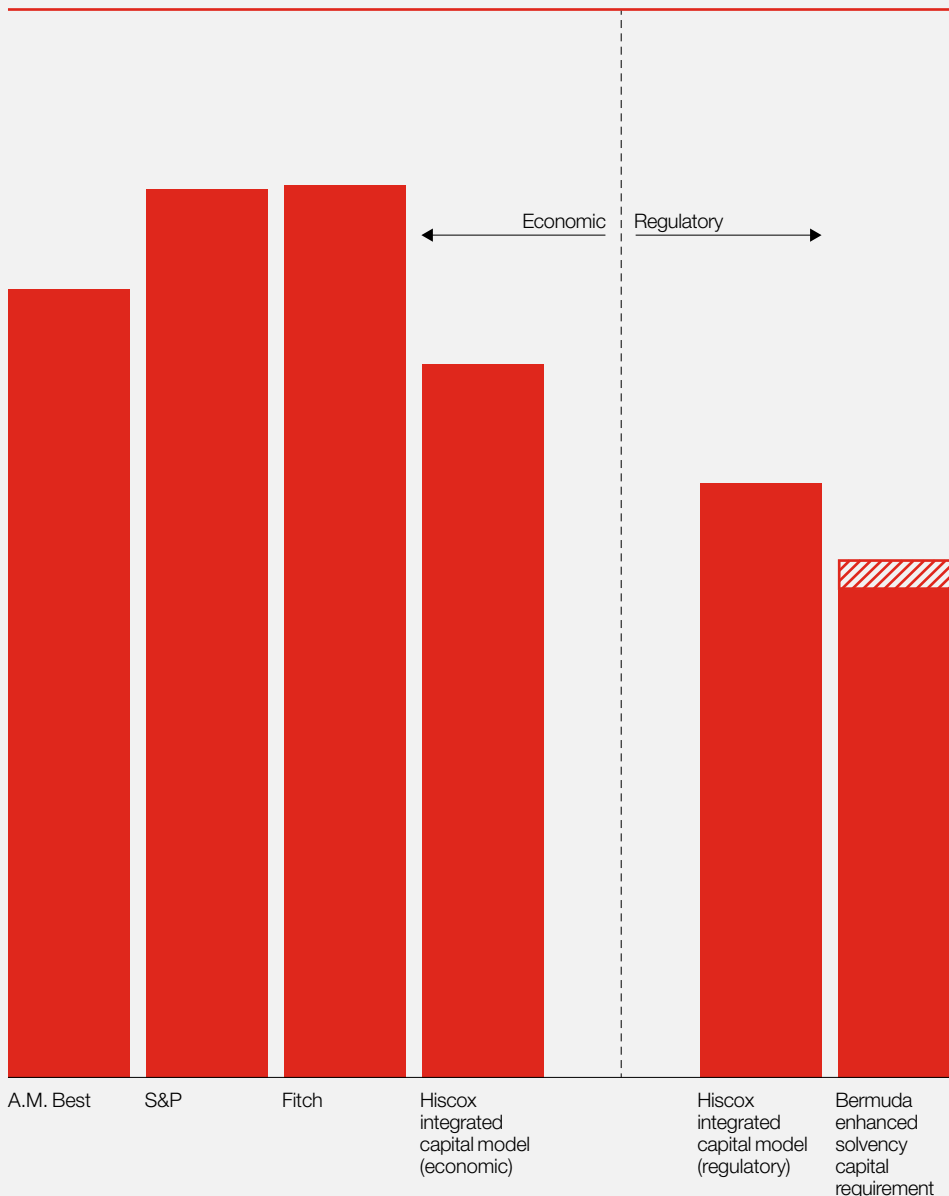
Read more about our financial condition in our financial condition report hiscoxgroup.com/about-hiscox/group-policies-and-disclosures



The Hiscox businesses are rated 'A' by A.M. Best and S&P and A+ by Fitch. Read more in note 3 to the financial statements.

Projected capital requirement

\$2.43 billion available capital



Estimated BSCR post new formula

Rating agency assessments shown are internal Hiscox assessments of the agency capital requirements on the basis of projected year-end 2020 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.

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 2020, 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 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 2020 we continued work to enhance and strengthen our risk appetite statements across the Group.

Risk management framework

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

Risk governance





“Given the rapid pace of change during 2020, I am pleased that the robust risk management and governance framework we have established over the years – along with the discipline we have embedded in the business – served us well. This meant we were able to respond and adapt quickly, maintaining resilient operations and making timely risk-based decisions even in such unusual circumstances.”



Hanna Kam
Group Chief Risk Officer

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
Owens 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





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



Read more about our key risks.

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 such as those shown in the chart opposite, 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. During 2020, the Risk Committee actively tracked the changing risk landscape and potential impacts to the Group's risk profile.

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 and no material changes to the principle risks are required.

The role of the Group risk team

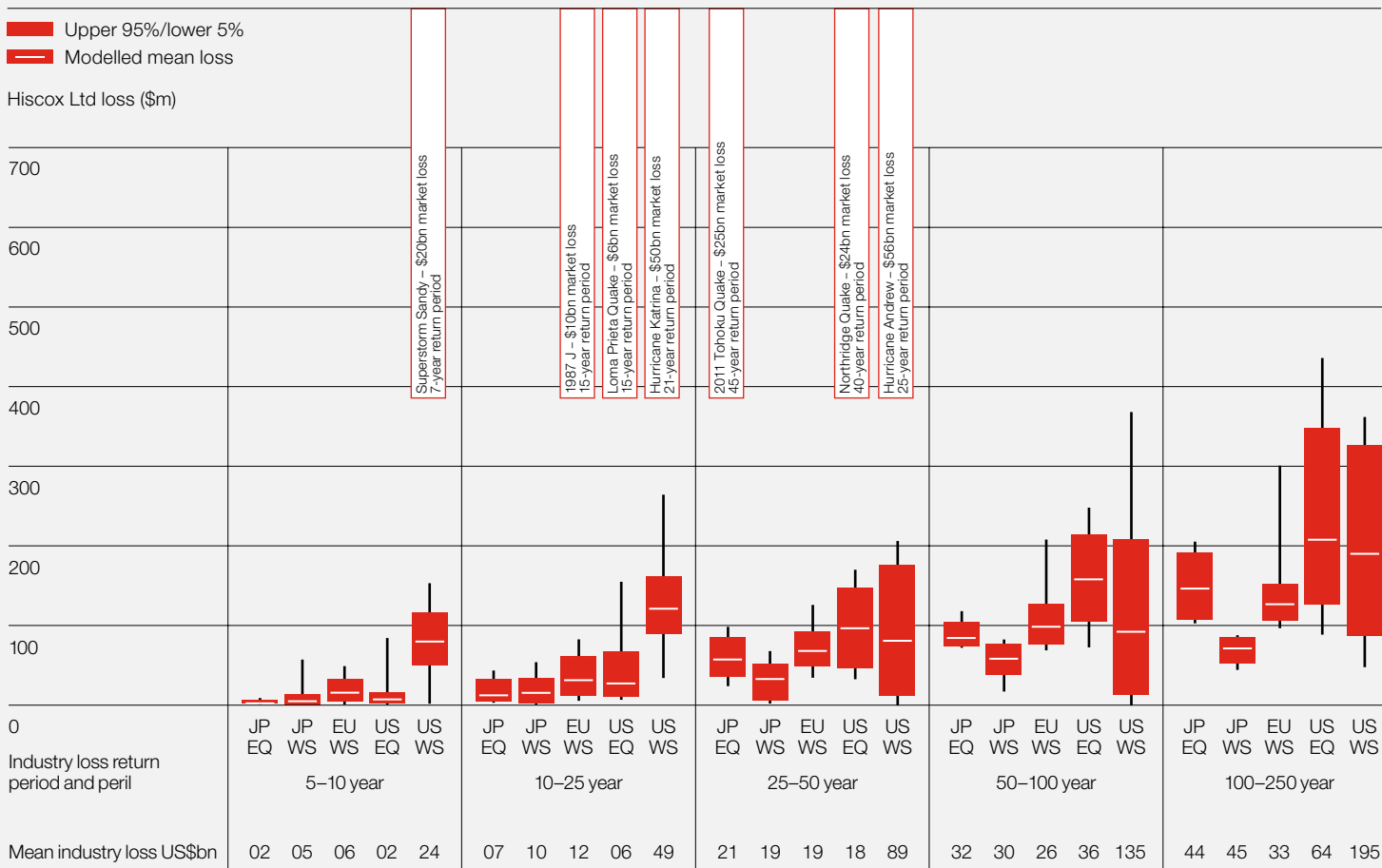
The Group risk team is responsible for designing and overseeing the implementation and continual improvement of the risk management framework. The team is led by the Chief Risk Officer who reports to the Chief Executive, the Risk Committee of the main Board and to those of the relevant subsidiary boards.

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.

2020 has seen a continued focus on improving the efficiency of the risk management framework, mainly through the streamlining and automation of repeatable cycles and further development and embedding of the risk and control self-assessment process. This drive for efficiency allows for an increase in risk deep-dives and for more support to be available to the portfolio of Group-wide change programmes, as well as ensuring appropriate support and challenge is provided to the first-line in assessing, understanding and responding to risks emerging out of Covid-19.

Property extreme loss scenarios

Boxplot and whisker diagram of Hiscox Ltd net loss (\$m) for certain modelled losses January 2021





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.

<p>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.</p> 	<p>Employees We want to build teams that are as diverse as our customers and create a vibrant work environment where all employees can thrive.</p> 	<p>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.</p> 
<p>Regular investor dialogue We maintain regular dialogue with our shareholders beyond the financial reporting cycle, predominantly via our Chief Financial Officer and investor relations, who meet with existing shareholders, potential investors and research analysts, and participate in industry conferences and roadshows. During 2020 they conducted over 300 meetings and met with over 130 investors.</p> <p>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. These are published on our corporate website, and available as an email alert for subscribers.</p> <p>Annual Report and Accounts Our Annual Report and Accounts gives shareholders a more detailed view of the business. It also includes some additional corporate governance disclosures beyond our statutory requirements, where we think that doing so improves our narrative reporting.</p> <p>Investor roadshows Our Chairman and Executive Directors maintain a programme of investor roadshows to give investors an opportunity to learn more about Company strategy, strategic priorities, trading conditions and other factors affecting our operations. In 2020, our Chairman and Executive Directors met with investors representing over 70% of our issued share capital.</p> <p>Annual General Meeting (AGM) Our AGM provides another regular investor touchpoint. At the 2020 AGM all resolutions were passed, with votes in favour ranging from 88% to 100%.</p>	<p>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 48.</p> <p>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.</p> <p>Employee networks Over 1,700 employees are actively engaged in at least one of our 12 employee networks. From WeMind (mental health and well-being) and Pan-African to Women at Hiscox and LGBT+, each network provides focused discussion, practical activities and support.</p> <p>Communication updates Employees receive regular updates on business plans and performance through emails and newsletters, intranet articles, team meetings and Company-wide 'connected' events.</p> <p>Annual 'launch' events and 'box' meetings Business unit leaders hold regular all-staff meetings to align on strategy and objectives, share news and celebrate those marking ten or 20 years at Hiscox with long-service awards.</p> <p>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.</p> <p>UK Living Wage We believe a hard day's work deserves a fair day's pay, which is why we are an accredited UK Living Wage employer.</p>	<p>Chartered Insurer status 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.</p> <p>Annual preferred broker summit and broker academy For the last ten years we have held an annual preferred broker summit for our UK brokers, to share insight and expertise. Our London Market business also hosted its fourth annual broker academy to educate and inform in 2020.</p> <p>Broker satisfaction survey Each year we measure broker satisfaction with our products and services. In 2020, this involved surveying over 1,000 UK, US and London Market brokers.</p> <p>Attending key broker events We participate in key broker events in every part of our broker-facing business. This includes: BIBA, a UK insurance and broker conference; the CIAB, a US marketplace meeting for commercial property and casualty brokers and insurers; and, in our big-ticket business, Monte Carlo, Baden Baden, and RIMS.</p> <p>Educational seminars Throughout the year we hold educational events and roadshows for brokers to improve knowledge of complex or unusual risks. In 2020, this included events on cyber, claims trends, professional indemnity and navigating market conditions.</p> <p>Broker newsletters and thought leadership In the UK, our broker newsletter of claims stories, product updates and events is enjoyed by over 5,000 brokers, while our London Market business produces regular thought-leadership content. In 2020, this included a 'MarketTalk' video series on topics such as the state of the market, market modernisation and the future of the London insurance marketplace.</p>



“We have built strong relationships with our distribution partners, and this year we found new ways to work and engage with them. Virtual meetings, social and educational events proved popular, with more than 25,000 participants attending our webinars across Europe during 2020. Our technology investments in recent years, including in broker extranet sites, also made it easier for our brokers to do business with us, and resulted in more than 60% of small commercial business being traded online.”



Stéphane Flaquet
Chief Executive Officer, Hiscox Europe

Customers

We have over 1.3 million retail customers worldwide and providing each of them with products they can rely on is what we are here for.



Research and insight

We talk to thousands of customers each year, through surveys, focus groups and other qualitative research, which helps us to continually improve our offering. We also measure our customer service by collecting feedback after they have contacted our service centre, bought a product or made a claim. For more, see page 5.

Sharing useful content

We share news, opinion pieces and tips with some of our core customer groups through newsletters and blog content. This includes our US ‘side hustle to small business’ campaign which showcased how individuals turned their side hustle into a fully-fledged small business.

Vulnerable customers

We have an established team of 20 vulnerable customer champions in the UK, whose work is supported by tailored policies and procedures for those customers that are identified as vulnerable.

Piloting new technologies

We work with our customers to pilot new technologies that aid risk prevention. This includes leak prevention technology, Leakbot, which we have so far provided to almost 2,000 of our UK home buildings insurance customers.

Educational tools

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

Cover during Covid-19

In response to Covid-19, we extended cover in some lines such as home and motor, provided premium refunds for event insurance customers, waived 30-day cancellation periods for commercial insurance policyholders, and offered a range of financial concessions including payment holidays. These changes resulted in more frequent communications with our customers in 2020.

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 dialogue

Our Chief Compliance Officer and central compliance team lead our relationships with regulators worldwide and maintain regular dialogue with them. In 2020, the team engaged with our various regulators, with involvement from senior management and the Board when required, including on the impact of Covid-19. Discussions included the initial and ongoing operational impact of remote working, customer support initiatives, and the potential solvency impact of different types of claims arising from the pandemic. We also participated in an insurance industry test case organised by the UK Financial Conduct Authority. For more, see page 22.

Regulatory change

We contribute to the regulatory change process, both directly and through active membership of trade associations, such as the Association of Bermuda Insurers and Reinsurers and the Association of British Insurers. In 2020, subjects covered included the proposed UK operational resilience regime, potential changes to the EU Solvency II Directive, and changes to privacy requirements in Bermuda and the USA.

Supervisory co-operation

In 2020, our Group supervisor the Bermuda Monetary Authority (BMA) hosted a supervisory college, 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 members of our senior management team participated in the session.

Scenario analysis and stress testing

We maintain a regular cycle of stress testing and scenario analysis to ensure we manage risk well and evolve at the same pace as the risks we cover. We also continue to participate in regulator-led exercises such as the biennial General Insurance Stress Test (GIST) – facilitated by the UK’s Prudential Regulation Authority – which was last completed in 2019.

Regulatory reporting

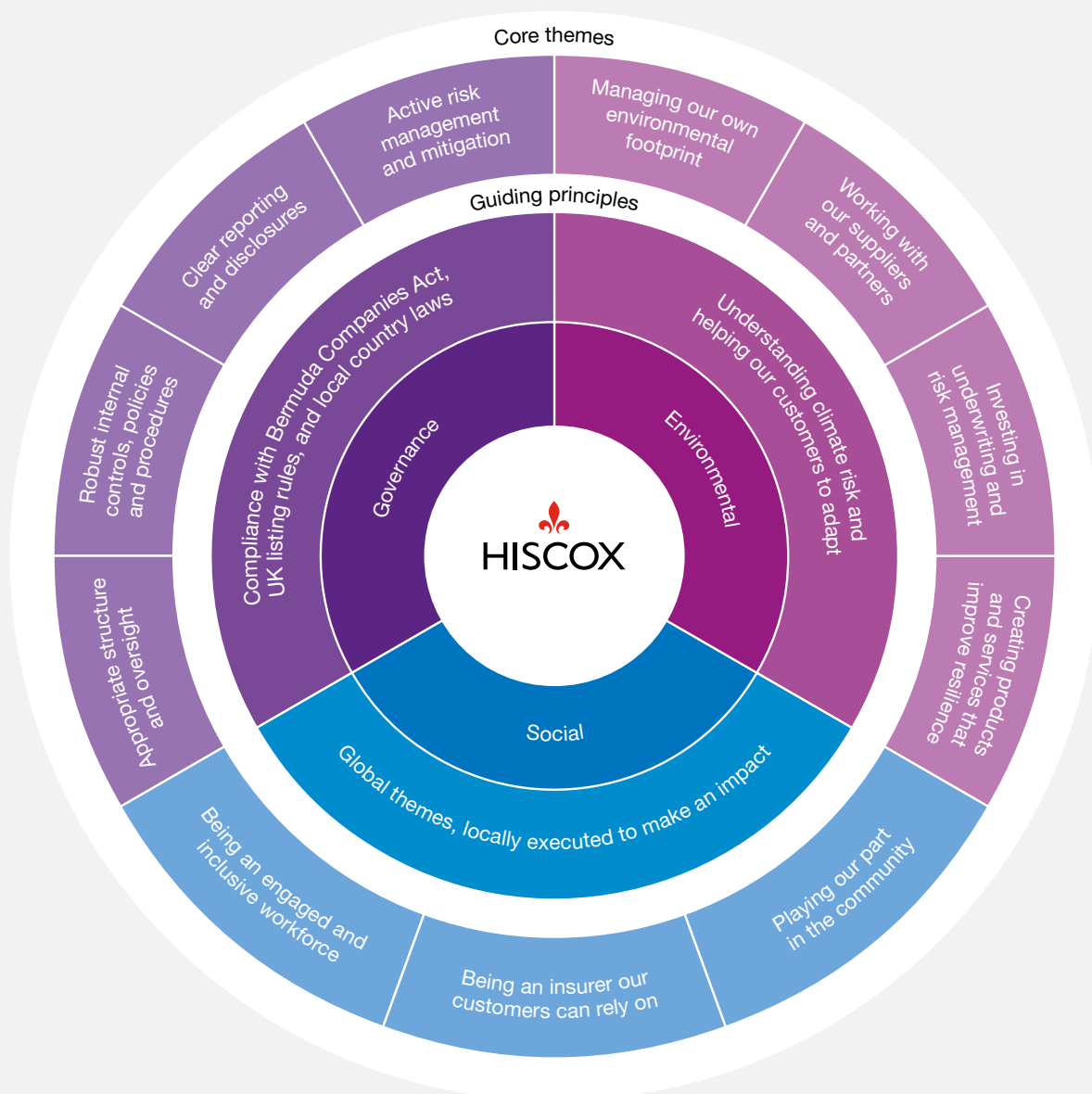
The Group and its subsidiaries met all material regulatory reporting obligations for 2020.

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

ESG issues touch many different parts of our business and the Hiscox ESG framework helps us stay focused and make an impact. It ensures we are pragmatic and consistent, teaming Group-wide themes with local market relevance. We also evolve as regulation changes and public interest in emerging issues grows.





“ESG really matters to me, and it matters to Hiscox. We made great progress this year through pragmatism and focus, and in 2021 we will build on this – embedding our divestment policies and setting new carbon reduction targets which are aligned to the Science Based Targets initiative.”



James Millard
Chief Investment Officer
and ESG Executive Sponsor

ESG measurement

Our ESG efforts are measured both internally and externally. Externally, we participate in a number of key ESG indices and we report against Task Force on Climate-related Financial Disclosures (TCFD)-aligned principles in our annual climate report.

Internally, we set key performance indicators for ESG issues which are periodically reviewed and refined.

ESG oversight

Our ESG Executive Sponsor is responsible for overseeing our ESG efforts, working with the Executive Committee and the Board to ensure our practices and policies continue to evolve. Facilitated discussions on ESG took place at both an Executive Committee and Board level during 2020, and these sessions focused on approving the Group’s new responsible investment policy and our approach to ESG-related exclusions, developing our internal KPIs and agreeing the ESG plan for 2021.

Oversight in action:

Non Executive Director focus groups on ESG

During 2020, we held a number of focus groups with our Non Executive Directors to explore a range of ESG issues with them outside of the main Board meetings. These sessions covered issues including our exposure to fossil fuels and other contentious industries in underwriting and investments, ESG measurement and assessment, ESG risks and opportunities, and future ESG training requirements. The outputs from these sessions have proven valuable, informing our 2021 ESG plans, and similar focus groups will now become a regular feature of our annual ESG planning process.

ESG oversight in the business

Hiscox Ltd Board

- Oversight of ESG strategy and priorities.
- Discusses ESG twice-yearly.
- Provides challenge and approval of key ESG matters.

Executive Committee

- Approves ESG strategy and priorities.
- Oversight of ESG delivery.
- Regularly reviews plans and progress.

ESG working group

- Drives day-to-day efforts on the ground.
- Chaired by ESG Executive Sponsor.
- Meets at least monthly.
- Includes representatives from underwriting, investments, risk and corporate affairs.

Latest ESG disclosure scores

<p>2020: C grade 2019: C grade</p>	<p>2020: 66% 2019: 46%*</p> <p>*Change of methodology in 2019.</p>	<p>2020: 35/100 2019: 31/100</p>	<p>2020: 4.1/5 2019: 4.2/5</p>	<p>2020: 25.6 2019: 28.0</p>
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Our ESG framework in action
Environmental
Understanding climate risk and helping our customers to adapt.

GHG emissions 2020

Activity	Energy (kWh)	Emissions (tCO ₂ e)
Scope 1 total		467
Natural gas	1,710,200	316
Company cars	560,441	151
Scope 2 total (location-based)		1,565
Electricity (location-based)	5,176,116	1,565
Scope 3 total		231
Personal vehicles	899,189	231
Total	8,345,946	2,263

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.

Key developments from the year

Exposure reduction commitments to support move to low-carbon economy

(Re)insurers have a role in ensuring an orderly transition to a low-carbon economy and we want to play our part. Our aim is to reduce steadily and eliminate by 2030 our insurance, reinsurance and investment exposure to coal-fired power plants and coal mines; Arctic energy exploration, beginning with the Arctic National Wildlife Refuge; oil sands; and controversial weapons such as land mines. These ambitions form our new Group-wide ESG exclusions policy, which aligns with the Lloyd's ESG ambitions published in December 2020.

Embedding rhythm and accountability in our approach to climate change

We take a strategic, holistic and long-term approach to managing the risks arising from climate change, considering the potential impact to all aspects of the Group's risk profile and balance sheet. During 2020, we further formalised our approach; ensuring that physical, transition, liability and reputational risks arising from climate change, and their potential impacts, are monitored, managed and owned across the business via repeatable cycles of activity and considered over a range of business planning time frames, while also taking into account wider market and regulatory trends. We have established a cycle of reporting to the Executive Committee and Board on climate-related issues, and appointed two senior managers with regulatory responsibility for managing the financial risks from climate change onto our relevant UK boards. We have also held a number of Board informational sessions on climate change during 2020, where current exposure to – and management of – climate change risks were discussed. We will continue to develop and embed our approach and legal-entity specific plans further in 2021.

Evolving the Hiscox view of risk for Japanese windstorm

Following several active years for Japanese windstorms, which inflicted sizable market losses, in 2020 we undertook a fundamental reappraisal of windstorm risk in the region. This meant looking at our evolving knowledge of the peril and its potential impact on catastrophe models – with a particular focus on hazard, vulnerability, data quality, and climate change. This is particularly important as the granularity of the available exposure data in the region does not compare favourably to the data available in other parts of the world – for example in the USA, where it is customary to use location-level information. This reappraisal enabled us to gain insights on model behaviour at various scales, including the potential effects of 'urban canyons' – the wind tunnels created in urban areas as a result of tall buildings – and the role that climate change can play in our understanding of current Japanese windstorm risk. Each new event provides us with a new data point with which to update the Hiscox view of risk and the 2018 and 2019 Japanese windstorm events have – along with this reappraisal – enabled us to evolve our modelling approach and as a result improve underwriting performance in this line of business.

Strengthening our internal expertise and focus on climate change

We continue to invest in our in-house capabilities around climate change. We are creating a new climate change research role to further our understanding of climate-related threats and opportunities, which will contribute to the ongoing development of the Hiscox view of risk from a climate change perspective, and also to business and portfolio insights from a risk management perspective. We are also establishing a new climate implementation group to increase our focus on climate-related developments and drive climate-related innovation – particularly in our underwriting, research and modelling.

Current carbon reduction targets met and new targets in development

Hiscox targeted a 15% real-term reduction in our Scope 1, 2 and 3 carbon emissions per FTE by the end of 2020, relative to 2014. While we have achieved this target, having completed a 45% real-term reduction in Scope 1, 2 and 3 carbon emissions per FTE over that period, some of this achievement is as a result of the positive impact that Covid-19 has had on reducing business travel, which is currently the biggest contributor to our emissions. We are in the process of setting new targets which are aligned to the Science Based Targets initiative (SBTi) and plan to publish these during 2021.



“We have a market-leading catastrophe research and modelling team, including climate scientists, whose expertise – combined with the latest academic insights and our own underwriting and claims experience – enables us to provide accurate coverage and pricing of climate-related risks, even as these risks evolve. We already consider climate change for perils such as wildfire and Japanese typhoon, and in 2021 our work will focus on quantifying its impact on flood and convective storms.”



Robert Caton
Director of Underwriting Risk
and Reinsurance

Scope 1, 2 and 3 emissions **reduced by 45%** in 2020 to 2.01 tCO₂e per full-time employee (FTE)



We worked with Ghani solar renewable power project in India to offset our **11,505 CO₂e tonnes** of emissions in 2020.



2020 was our **sixth year** as a carbon-neutral business.



Our reappraisal of Japanese windstorm risk is **improving underwriting performance** in our catastrophe-exposed business.



We partnered with **Cycle2Work** on a UK cycle to work scheme to make travelling to and from the office in a more environmentally-friendly way more affordable.



We achieved a **20 percentage point increase** in our ClimateWise score for 2020, where we disclosed against TCFD-aligned principles.





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.

Key developments from the year

Supporting ethnic diversity and social justice

We strive to be an inclusive employer and to create workplaces where employees feel they can be themselves regardless of their background. Following the death of George Floyd and the ensuing protest movement, we responded with a number of initiatives aimed at demonstrating our commitment to racial and social justice. In the USA, we donated to noteworthy charities like the Equal Justice Initiative and National Cares Mentoring Movement, piloted a diverse talent development programme specifically aimed at African-Americans, and enhanced our unconscious bias training programme for managers. We also empowered our US employees by giving them \$100 each to spend at a black-owned business of their choice. In the UK, we launched a new chapter of our Pan-African employee network, which led our inaugural celebration of UK Black History Month with a keynote speaker and kickstarted a programme of networking and educational opportunities for our UK employees.

Redeploying our people to best serve changing customer needs

We have always been responsible stewards of our resources and as Covid-19 took hold in the UK we swiftly reassessed the needs of our customers and our people. Recognising that the pandemic would generate increased customer queries and claims, at the same time as some of our employees would need to work fewer or less regular hours due to the demands of juggling work and home life during lockdown, we launched a talent exchange programme to draw more resource to the frontline. This enabled 27 employees – from areas including recruitment, internal audit and facilities management – to be rapidly upskilled and temporarily redeployed to customer-facing roles. The talent exchange programme not only ensured that our customers enjoyed uninterrupted service when they needed us the most, it also invigorated

those involved and gave them a host of new skills to take back to their day jobs.

Enhancing small business' access to essential services at a time of need

Small businesses have been among those hit hard by the global pandemic, but through new partnerships we have endeavoured to increase their access to essential services, such as access to finance. In the USA, we have teamed up with Accion, which provides capital, coaching and connections to entrepreneurs; the Women's Business Development Center, which offers technical assistance and financial advisory services including micro-lending to women and underserved communities; and the Women's Business Enterprise Council, which serves established businesses by providing networking, programming, and financial consulting services. In the UK, we are working with Swoop to improve small business access to funding, and with Business in the Community as part of their National Business Response Network which connects business support with community need, and we have also established the Hiscox Business Support Hub to give our small business customers access to a range of free or significantly discounted services during this time.

Taking the temperature with our global employee engagement survey

Each year, we survey our global employee base to find out more about how employees feel about Hiscox, its leadership, their managers and their roles. In 2020, over 2,500 employees responded; 77% told us they felt proud to work for Hiscox, 83% said employees are treated fairly regardless of disability, age or professional background, 90% said they believe in our corporate values, and 91% said they are given the flexibility in their job to manage their work/life balance. In addition, manager effectiveness scores improved six percentage points year-on-year to 81% following a Group-wide effort to improve in this area. Given the events of the year we also asked how well we have managed the change in working environment and supported employees through the pandemic, and 86% said we have managed this well. All these scores will inform our work in 2021 around nurturing talent in new ways, which is one of our business priorities for the year ahead (see page 13).



“2020 marked my first year as Executive Sponsor for diversity and inclusion and what a year it’s been. We now have 12 employee networks with over 1,700 members, whose passion for progress is fantastic to see. We’re also improving diversity within our succession planning, with at least one female successor targeted for each leadership role; kick-starting our race and ethnicity agenda with new actions plans; and broadening out where we search for talent via new partnerships.”



Kate Markham
Chief Executive Officer, Hiscox London
Market and D&I Executive Sponsor

We are active members of **Insuring Women’s Futures**, a Chartered Insurance Institute initiative aimed at evolving our industry’s approach to women and risk.



86% of employees said we managed the change in working environment well in 2020, and that they felt supported.



We paid out **\$1.9 billion** in claims worldwide in 2020.



We donated over **\$9 million** to good causes in 2020, and published a special edition Covid-19 impact report.



Our three strategic pillars for charitable giving

Social mobility and entrepreneurship

Protecting and preserving the environment

Causes our people are passionate about

This year we signed the **Race at Work Charter** in the UK, furthering our commitment to increase ethnic and racial diversity across our organisation.



27 of our UK employees were redeployed to frontline roles to support our customers during Covid-19.





Our ESG framework in action

Governance

Compliance with the 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 3,000+ 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.

Key developments from the year

Piloting culture dashboards in our subsidiary boards

During 2020, we began piloting culture dashboards across a number of our subsidiaries to allow those boards and leadership teams to create a rigorous and repeatable process for measuring and monitoring culture. Through this approach, we set out a number of culture standards we wish to live by, around themes such as openness, diversity and inclusion, customer-centricity, respectful personal behaviour, operational focus, diligence in risk management, and good leadership. We are then able to assess whether the agreed standards are being met via a list of pre-agreed culture metrics, which measure everything from customer net promoter scores and number of complaints received, to employee engagement scores and gender diversity at every level of the business. Our culture dashboards are reviewed monthly by business unit leadership teams and shared with the relevant subsidiary boards, and the findings are used to inform areas of focus when it comes to maintaining the right culture. In the UK, we also have a culture steering committee that helps drive progress through their monthly meetings to discuss culture indicators, culture strategies and new culture projects.

Establishing a rhythm with our employee engagement network

In 2019, we formalised our existing approach to workforce engagement by establishing an employee engagement network, led by Non Executive Director Anne MacDonald in her capacity as Employee Liaison. While the Board has historically engaged with the workforce and continues to leverage the pre-existing infrastructure to ensure that Hiscox is motivating and engaging employees in an effective way, the employee

engagement network ensures workforce views are considered in its decision-making process. The Employee Liaison facilitated eight meetings in 2020 with a representative group of 30 employees from across the business, supported by our Head of Diversity and Inclusion and Group Company Secretary. These sessions explored some of the key themes from our most recent employee engagement survey – such as the communication of business plans, how the updated values have been embedded in the organisation, manager effectiveness, and personal development tools and support for career paths – as well as the impact of Covid-19 on home-working and our ability to achieve business objectives. Anne has provided regular Board updates on these sessions, enabling the Board to get even closer to employee engagement and culture trends, and the workforce feedback received has informed Board discussions in areas such as remuneration. Where appropriate, outputs from the network are also raised and addressed at Executive Committee level – allowing course corrective action to be taken swiftly if needed.

Monthly cycle of employee training

In 2020, employees received a range of mandatory new and refresher training across regulatory issues, information security and learning and development. The 2020 training programme built on the regime introduced in 2019, with modules including cyber security, financial crime, underwriting controls, working in a regulated environment, privacy and reporting regulatory incidents. Given the move to remote working in response to Covid-19, new modules included taking security home, safe web browsing, and staying secure in a connected world.

Governance in a Covid-19 world

During a turbulent year, it was important for us to engage more with our shareholders to update them on the evolving situation and reassure them of our response. We held over 30 meetings with shareholders, representing over 70% of our share register. The Board also met more frequently in 2020, with 17 informational sessions to assess our exposures and responses. Their sessions covered all aspects of the pandemic, and updates to the Board included potential loss exposures, our reinsurance programmes, reputation and engagement with regulators. The Board also carefully considered our remuneration approach for such an extraordinary year. Given our remuneration policy is designed to focus on long-term performance and drive long-term shareholder value, no bonuses were paid to Executive Directors in 2020, however personal performance bonuses were paid to frontline staff.



Read more about our approach to ESG online at hiscoxgroup.com/responsibility



“As Employee Liaison I have been very pleased with the broad representation and views received through the employee engagement network. I have found the conversations open and honest – a testament to Hiscox’s culture – and the direct communication has served as a valuable tool to give the Directors insight into what people are thinking, and to validate or contribute to matters that, as a Board, we are considering.”



Anne McDonald
Independent Non Executive Director
and Employee Liaison

The Board held **17 informational sessions** in 2020, meeting more frequently to assess Covid-19 exposures and responses.



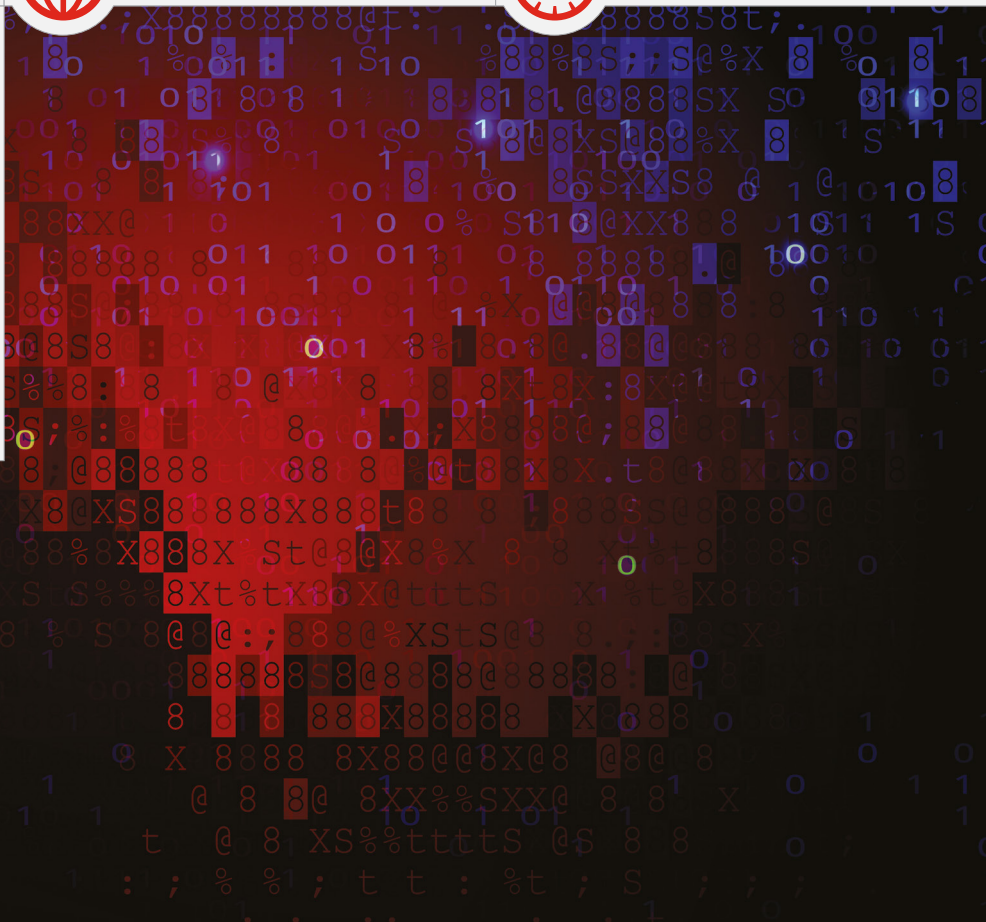
Five new phishing campaigns tested our internal responses to IT threats in 2020, alongside new information security training modules.

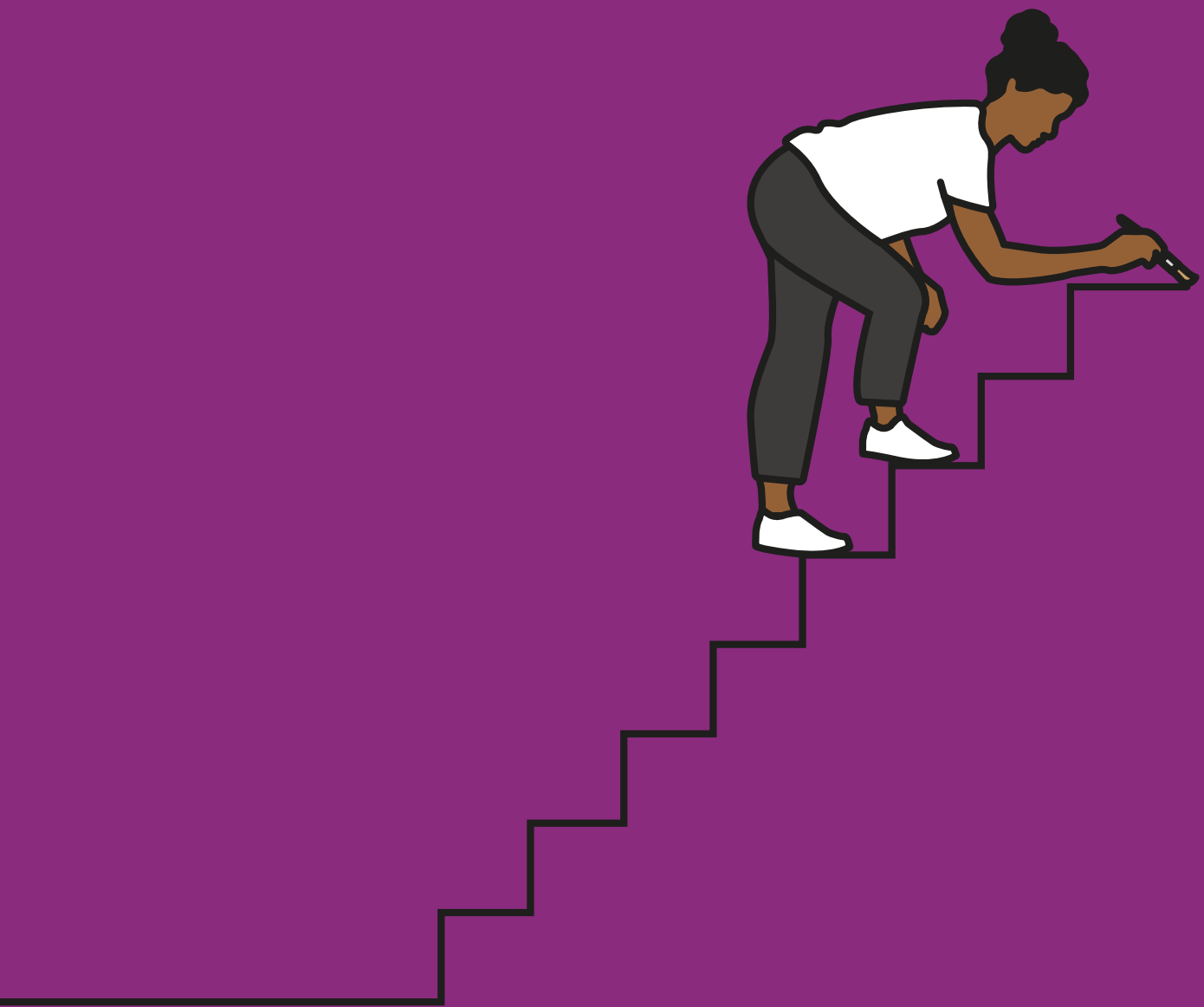


Ten climate-related disclosures to regulators and global independent ESG standards completed.



Over 43,000 training hours completed in 2020.





We'll get there by
learning and
improving just a
little bit every day.



Owning the Hiscox view of risk

When it comes to natural catastrophes, understanding how these risks evolve over time is vital when it comes to coverage levels and contract pricing. For three consecutive years (2017-2019), the industry experienced significant loss activity as a result of Japanese typhoons, US hurricanes and California wildfires, and Hiscox Re & ILS was not immune to this. These types of large loss events indicated a trend towards more intense natural catastrophes over time, leading to higher claims frequency and severity – and addressing them required an ownership approach.

Our Re & ILS team worked to review and refine what we call 'the Hiscox view of risk' for both Japanese windstorm and California wildfire. Their work meant examining existing catastrophe models and research, proprietary claims insight and key factors such as hazard level, vulnerability, data quality and climate change. There is complexity in this kind of data analysis, and each natural catastrophe event provides a new data point to challenge, refine and advance our understanding. The team's work has enabled us to evolve our modelling approach and improve underwriting performance in our catastrophe-exposed business.

Board of Directors



Non Executive Chairman

Robert Simon Childs (Aged 69)
Appointed Chairman: February 2013
Appointed to the Board: September 2006

Relevant skills, experience and contribution

- 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. Robert is also Chair of the Nominations and Governance Committee, the Investment Committee, and the Hiscox Syndicates Limited Board. He joined the Council of Lloyd's in 2012 and served as Deputy Chairman of Lloyd's from 2017 to 2020.

External board appointments

The Bermuda Society.



Executive Director

Joanne Musselle (Aged 50)
Group Chief Underwriting Officer
Appointed to the Board: March 2020

Relevant skills, experience and contribution

- 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. Joanne also sits on the Board of a number of Hiscox subsidiary companies. 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.



Executive Director

Bronislaw Edmund Masojada (Aged 59)
Group Chief Executive
Appointed to the Board: October 2006

Relevant skills, experience and contribution

- 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.

Broniek joined Hiscox in 1993 as Group Managing Director and became Chief Executive in 2000. Broniek also sits on the Board of a number of Hiscox subsidiary companies. Prior to that he worked with McKinsey & Company, where he advised Lloyd's on its renowned Reconstruction and Renewal plan. Broniek also previously served as Deputy Chairman of Lloyd's and Chairman of the Lloyd's Tercentenary Research Foundation, and currently serves as a City of London Alderman.

External board appointments

Association of British Insurers; Pool Reinsurance Company Limited; Policy Placement Limited.



Executive Director

Hamayou Akbar Hussain (Aged 48)
Group Chief Financial Officer
Appointed to the Board: September 2016

Relevant skills, experience and contribution

- 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 as Group Chief Financial Officer and also sits on the Board of a number of Hiscox subsidiary companies. Aki came to Hiscox 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.



Senior Independent Director

Colin Keogh (Aged 67)
Appointed to the Board: November 2015

Relevant skills, experience and contribution

- 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. Colin is also Chair of the Remuneration Committee and of the Hiscox Insurance Company Limited Board.

External board appointments

Ninety One Plc and Premium Credit Limited.



Independent Non Executive Director

Caroline Foulger (Aged 60)
Appointed to the Board: January 2013

Relevant skills, experience and contribution

- 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. Caroline also serves on the Hiscox Insurance Company (Bermuda) Limited and Hiscox Syndicates Limited Boards as a Non Executive Director and is Chair of the Audit Committee.

External board appointments

Oakley Capital Investments Limited; Catalina Holdings (Bermuda) Ltd; Generation Life Ltd; General Two Ltd; Atlas Arteria; Ocean Wilsons.

- △ Member of the Audit Committee
- Member of the Nominations and Governance Committee
- Member of the Remuneration Committee
- Member of the Risk Committee
- ∕ Member of the Investment Committee

▲●●●∕
Chair of Committee is highlighted in solid.



Independent Non Executive Director

Michael Goodwin (Aged 62)
Appointed to the Board: November 2017

Relevant skills, experience and contribution

- 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.

Michael also serves on the DirectAsia Board as a Non Executive Director.

External board appointments

Partner Reinsurance Asia Pte Ltd; Steadfast Distribution Services Pte Ltd; NCI Brokers (Asia) Pte Ltd; Galaxy Insurance Consultants Pte Ltd; Enya-Lea Pte Ltd; Werombi Pte Ltd.



Independent Non Executive Director

Thomas Hürlimann (Aged 57)
Appointed to the Board: November 2017

Relevant skills, experience and contribution

- 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. Thomas also serves on the Hiscox SA Board as a Non Executive Director.

External board appointments

None.



Independent Non Executive Director

Anne MacDonald (Aged 65)
Appointed to the Board: May 2015

Relevant skills, experience and contribution

- 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. Anne also serves as the Employee Liaison for Hiscox.

External board appointments

Boot Barn Holdings, Inc.; Zeotap; Tuckerman & Co.; Chops Snacks; IGNITE National; Visiting Nurse & Hospice of Litchfield County.



Independent Non Executive Director

Constantinos Miranthis (Aged 57)
Appointed to the Board: November 2017

Relevant skills, experience and contribution

- 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. Costas also serves on the Hiscox Insurance Company (Bermuda) Limited Board as a Non Executive Director.

External board appointments

None.



Independent Non Executive Director

Lynn Pike (Aged 64)
Appointed to the Board: May 2015

Relevant skills, experience and contribution

- 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. Lynn also serves on the Hiscox Insurance Company Inc. Board as a Non Executive Director and is Chair of the Risk Committee.

External board appointments

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



Group General Counsel and Company Secretary
Marc Wetherhill (Aged 48)
Group General Counsel and Company Secretary

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.

Senior management

Attracting and retaining top talent is important to us, and at a senior management level we have a diverse team whose combination of experience and fresh-thinking provides challenge and drives progress.



Amanda Brown
Chief Human Resources Officer
Joined Hiscox: October 2006

Relevant skills, experience and contribution

- Deep expertise in developing and implementing HR strategy across multiple geographies.
- Global compensation management including executive compensation policy and shareholder consultation.

Amanda leads our team of 90 HR professionals around the world, overseeing our HR policies and procedures, employee rewards and benefits, recruitment, learning and development, and our approach to remuneration to ensure our continued ability to attract and retain talent at all levels.



Stéphane Flaquet
Chief Executive Officer, Hiscox Europe
Joined Hiscox: March 2010

Relevant skills, experience and contribution

- Strong financial services background.
- Sizable insurance industry experience gained within a range of European territories.

Stéphane originally joined Hiscox as Chief Operating Officer for Europe, and has also served as the Group's Chief Information Officer and latterly as Chief Executive Officer of Hiscox Europe. In 2021, he will take on the newly created role of Chief Transformation Officer, driving critical change programmes including the adoption of new technologies across the Group.



Grace Hanson
Chief Claims Officer
Joined Hiscox: January 2019

Relevant skills, experience and contribution

- Considerable legal expertise as a qualified US lawyer.
- Proven track record of building robust global claims functions for retail and big-ticket lines.

Grace leads our award-winning team of 340 claims specialists across 19 locations – the standard-bearers for Hiscox's customer promise. In 2021, she will kick-start our claims transformation programme, building on strong foundations through investments in technology, analytics, and operational capability.



Hanna Kam
Group Chief Risk Officer
Joined Hiscox: February 2015

Relevant skills, experience and contribution

- Qualified actuary with in-depth enterprise risk management and insurance expertise.
- International property and casualty insurance industry experience gained within corporate and consultancies across the UK and Australia.

Hanna leads our global team of risk and compliance experts, located in our key geographies and jurisdictions. She has Group-wide responsibility for Hiscox's enterprise risk management and regulatory compliance, and manages our relationships with regulators.



Steve Langan
Chief Executive Officer, Hiscox USA
Joined Hiscox: October 2005

Relevant skills, experience and contribution

- Significant global expertise in growing retail businesses throughout the insurance cycle.
- Extensive experience of brand-building and marketing, particularly across Europe and the USA.

Steve has held a number of senior roles throughout Hiscox; Chief Marketing Officer for the Group, CEO of Hiscox UK & Europe, and CEO of the DirectAsia Group. In his current role he is now focused on building our retail business and recognised brand in the USA.



Paul Lawrence
Chief Underwriting Officer, Hiscox London Market and Active Underwriter for Syndicate 33
Joined Hiscox: March 1992

Relevant skills, experience and contribution

- Deep expertise in big-ticket and specialty insurance underwriting.
- Extensive experience of underwriting throughout the insurance cycle.

Paul has underwritten a range of insurance lines at Hiscox including fine art, personal accident, specialty, and property insurance. He has also worked through large loss events such as 9/11 in 2001 and Hurricanes Katrina, Rita and Wilma in 2005 and has valuable experience of underwriting in both hard and soft markets.



Kate Markham
Chief Executive Officer, Hiscox London Market
Joined Hiscox: June 2012

Relevant skills, experience and contribution

- Strong experience of building customer-focused businesses.
- Track record of establishing operational and digital infrastructures that support growth.

Kate originally joined Hiscox to run our UK Direct business, and was promoted to Chief Executive Officer of Hiscox London Market in 2017. She leads our team of 300 London Market underwriters, analysts and support functions in the UK, Guernsey and the USA.



James Millard
Chief Investment Officer
Joined Hiscox: January 2020

Relevant skills, experience and contribution

- Significant investment management expertise.
- Twenty years' experience of managing investment teams, processes and portfolios.

James is responsible for the Group's investment portfolios, implementing overall investment policy and directing all portfolio management, research, trading and strategy. He leads our small in-house team, overseeing asset allocation along with the selection and monitoring of our externally appointed asset managers.



Ian Penny
Chief Information Officer
Joined Hiscox: May 2017

Relevant skills, experience and contribution

- Deep expertise in IT strategy, development, engineering, operations, IT change and programme execution.
- Experience of designing platforms for high-volume customer channels.

Ian leads the Group's technology function, overseeing a team of 700+ colleagues and partners globally. His experience of designing and safeguarding applications and infrastructure in a regulated industry informs our work around customer channels, software development, automation, and information security.



Kathleen Reardon
Chief Executive Officer, Hiscox Re & ILS
Joined Hiscox: January 2021

Relevant skills, experience and contribution

- Extensive experience of building reinsurance businesses throughout the cycle.
- In-depth knowledge of the Bermuda reinsurance market.

Kathleen joined Hiscox in 2021 from Hamilton Re, where she was Chief Executive Officer. She leads our reinsurance and ILS business, based in London and Bermuda, and is responsible for ensuring the team takes advantage of the hardening market and opportunities as they present themselves.



Bob Thaker
Chief Executive Officer, Hiscox UK
Joined Hiscox: February 2010

Relevant skills, experience and contribution

- Considerable experience of growing retail insurance businesses, particularly in Europe and Asia.
- Expertise in digital insurance distribution.

Bob originally joined Hiscox as Head of Group Strategy and has held a range of roles since. These include Group Chief Risk Officer, Head of Claims for Hiscox UK and later, Hiscox Europe, Group Chief Operating Officer for DirectAsia – based in Singapore – and CEO of DirectAsia Group before relocating back to the UK in 2019 as Hiscox UK's Chief Executive Officer.



Ben Walter
Chief Executive Officer, Hiscox Retail
Joined Hiscox: March 2011

Relevant skills, experience and contribution

- Deep understanding of global retail and digital insurance markets.
- Significant experience leading business transformation programmes.

Ben originally joined Hiscox as Chief Operating Officer for Hiscox USA before serving as its Chief Executive Officer for six years. He became Chief Executive Officer for Hiscox Retail – with responsibility for our Retail operations in the UK, Europe, and the USA – in 2018, with a focus on product innovation and growth, leveraging scale and driving digitisation.

Chairman's letter to shareholders

Dear Shareholder

Each year, I talk to you about the continued evolution of our governance structure as our business changes and grows, and I am pleased that, despite Covid-19, 2020 saw us deliver the same steady evolution. While Covid-19 was a dominant discussion point for the Board during the year, and you will find Covid-19-related Board activity outlined in the table on page 61, we have also continued to progress with important activity including employee engagement and climate change.

Evolving governance structures

We have continued to evolve our governance framework and underlying governance structures to meet the needs of our growing business. This year we focused on refining our approach to Board composition reviews as well as the succession planning process for our Non Executive Directors. This supports the established and robust succession processes we have in place for Executive talent reviews.

Additional work was undertaken to ensure the Group governance model is also reflected in our largest subsidiary boards. As a result, we have developed subsidiary-level governance manuals and embedded a repeatable process for updates to subsidiary board composition and Non Executive Director succession planning which is in line with the Group approach.

We continue to ensure our governance practices are in line with the UK Corporate Governance Code (the Code) and set out in detail how we have complied with the Code on pages 63 to 67. This should be read in conjunction with the corporate governance section on pages 57 to 62. As with last year's report, we have included some additional disclosures beyond our reporting requirements, such as our Chief Executive's pay ratio, where we feel that doing so would give shareholders a better understanding of our governance structures.

Employee engagement and the Board

Last year I reported that, in light of the Code's focus on ensuring the views of the workforce have been considered in Board discussions and decision-making, we had reviewed the wide and varied, formal and informal engagement mechanisms already in place and established a new Employee Liaison role and employee engagement network. In its first year, this approach has yielded new insights and ideas, and the Board is benefiting from the information that

Anne MacDonald, as our Employee Liaison, is able to share. More information on this is outlined on page 48.

Remuneration

Last year we made some changes to our remuneration policy to rebalance the weighting of incentives towards the long term – encouraging an ownership culture and increasing the focus on long-term performance. We continue to evolve our approach, and are proposing to introduce a second measure for the 2021 PSP awards to provide a broader view of our performance. You can read more about this in the letter from the Chair of the Remuneration Committee on pages 76 to 77.

Climate change

Addressing climate variability has always been a feature of our business and in 2020 we are building on the foundations laid through the Hiscox ESG framework with a Board-approved responsible investment policy and ESG exclusions policy. These policies support our pragmatic approach to ESG issues and complement the Lloyd's approach, published in December, which as Lloyd's participants we support. 2020 also saw the baton of responsibility for ESG pass from Mike Krefta – who made an immense contribution to our progress – to James Millard, our Chief Investment Officer and new ESG Executive Sponsor for the Group.

Disclosure is almost as important as action when it comes to ESG, and we completed additional disclosures this year which are outlined on page 43. Our climate report, which generated a 20-percentage-point increase in our ClimateWise score year-on-year, ensures our alignment to the Task Force on Climate-related Financial Disclosures (TCFD) and demonstrates our readiness to meet the UK Government requirements for mandatory TCFD-aligned climate reporting by the end of 2021.

I trust that the information set out 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 underpins our business model and continues to serve us well, including during the Covid-19 pandemic.

Board composition

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

The Board comprises 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 52 to 53. Notable changes during 2020 include Joanne Musselle, Group Chief Underwriting Officer, being appointed to the Board in March 2020. In accordance with the Company's Bye-laws and the Code, all Directors will seek re-appointment at the 2021 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 52 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; and
- approve the business plans and budgets.

Director role responsibilities

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
<ul style="list-style-type: none"> — Advises the Board on financial reporting. — Oversees the relationship with internal and external audit. — Oversees internal controls including reserving and claims. 	<ul style="list-style-type: none"> — Recommends Board appointments. — Succession planning. — Ensures an appropriate mix of skills and experience on the Board. — Promotes diversity. — Manages any potential conflicts. 	<ul style="list-style-type: none"> — 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. 	<ul style="list-style-type: none"> — 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 71 to 73.	The Nominations and Governance Committee report can be found on pages 68 to 70.	The remuneration report can be found on pages 80 to 93.	More information on risk management can be found on pages 12 and 36 to 39.

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.



More information on our approach to corporate governance, including the Board and Committee terms of reference can be found at hiscoxgroup.com/investors/corporate-governance



Read about our going concern and viability statements in our Directors' report.

Board statistics

Board diversity at 3 March 2021

Gender

Female	4
Male	7

Age

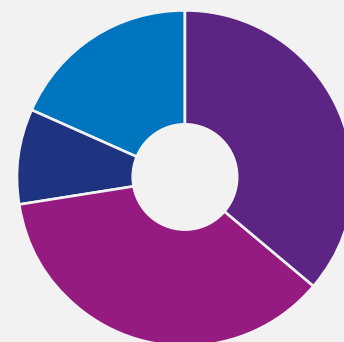
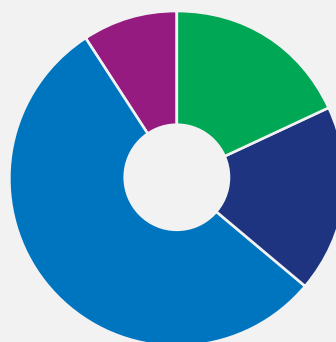
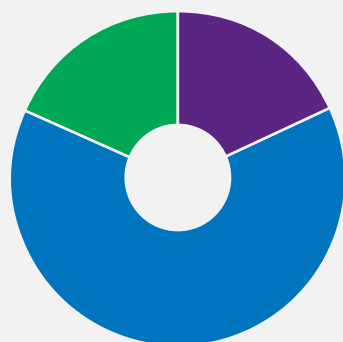
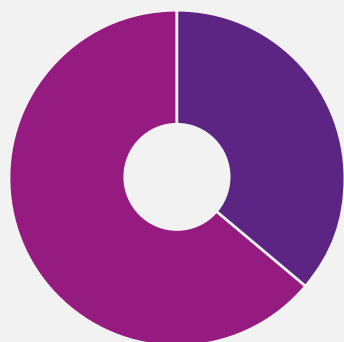
46-55	2
56-65	7
66-75	2

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



Corporate governance oversight

The Board operates within an established governance structure to ensure that through the delegations, strategy can be implemented effectively and this 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. Each Board committee operates within established written terms of reference 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 2020 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. The Group governance manual and supporting subsidiary governance manual ensures that the underlying processes throughout the Group follow consistent and effective governance procedures.

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.



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

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.

Board meetings and attendance in 2020

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 comprehensive meetings in 2020 (these meetings comprise meetings of the Board and of each of the Committees of the Board). There were additional Board meetings which covered specific topics such as the approval of May's capital raise, the Company's response to Covid-19 and the insurance industry test case. During an unprecedented and rapidly evolving period, we also held an additional 17 informational calls between Board meetings. These informational calls provided an opportunity to ensure the Board was kept informed of any business developments and allowed the Directors to monitor exposures, emerging issues and opportunities.

The Company's Bye-laws prohibit any Director who is in the UK or the USA from counting towards the quorum necessary for the transaction of business at a Board meeting. This restricts the ability of the Company's Directors based in the UK or USA to participate in Board meetings by telephone or other electronic means. Although the Company's February 2020 Board and Committee meetings were held in-person in Bermuda as scheduled, from March 2020, in-person Board activity was significantly disrupted due to government imposed Covid-19-related travel restrictions and guidance. As a result, it was not possible in many instances for our UK- and USA-based

Directors to travel to Bermuda or join the meetings as a result of restrictions on international travel and the airport in Bermuda being closed for periods of time. In light of this, the Board held an additional 17 informational calls which allowed for the continued sharing of information and ensured that all Directors had an opportunity to be apprised of all Board issues, even when, through no fault of their own, they were not able to attend the comprehensive Board meetings in person or, as a result of the prohibition in the Bye-laws, by telephone.

All Directors were able to fulfil their fiduciary responsibilities during 2020 and attended all Board and Committee meetings that they were eligible to attend (that is, those Board and Committee meetings that they were not precluded from attending as a result of Covid-19-related travel restrictions and guidance, and the Company's Bye-laws). With respect to the four comprehensive Board meetings in 2020, the Directors attendance (and the number of meetings that they were eligible to attend) is as follows: Caroline Foulger, Michael Goodwin, Thomas Hürlimann, Costas Miranthis (4/4); Robert Childs; Aki Hussain; Bronek Masojada; Joanne Musselle (3/3); Colin Keogh (2/2); Anne MacDonald, Lynn Pike (1/1). Joanne Musselle was appointed to the Board in March 2020 and, although not required, attended the February 2020 Board meeting.

There were also four meetings of each of the Committees of the Board during 2020. All of the Company's Non Executive Directors are members of each of the Audit Committee, Nominations and Governance Committee, Remuneration Committee, Risk Committee and Investment Committee and their attendance (and the number of meetings that they were eligible to attend) is as follows: Caroline Foulger, Michael Goodwin, Thomas Hürlimann, Costas Miranthis (4/4); Colin Keogh (2/2); Anne MacDonald, Lynn Pike (1/1). Robert Childs is a member of the Nominations and Governance Committee, Risk Committee and Investment Committee and he attended all three of the meetings that he was eligible to attend. Aki Hussain, Bronek Masojada and Joanne Musselle are members of the Investment Committee and attended all three meetings that they were eligible to attend.

All Directors intend to attend future Board and Committee meetings in person when circumstances allow.

Outside of the formal Board and Committee meetings and informational calls, Non Executive Directors have unfettered access to employees at all levels of the business, regularly



“I have been very pleased with how our governance processes have stood up to the exceptional challenges that presented themselves in 2020. They have proven to be robust and effective. We made use of technology and additional informational sessions to ensure that we were not only able to understand how the challenges were impacting Hiscox, but were also able to contribute to the process by sharing thoughts and ideas.”



Colin Keogh
Senior Independent Director

Board activity and 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. Naturally, the impact of Covid-19 was a dominant feature in much of the Board’s discussion in 2020.

Key themes in 2020	Key activities and actions
Strategy, culture and business performance	<ul style="list-style-type: none"> — Approval of the 2021 business plan. — Agreement on business priorities and review of these within the context of Covid-19. — Oversight of work on the development of a robust and open culture. Ongoing monitoring and assessment of culture has been an area of focus for 2020, thanks to the piloting of a number of ‘culture dashboards’ within some of the subsidiary Boards, as detailed on page 48. — Continued review of the strategy development.
Engagement	<ul style="list-style-type: none"> — Board members met throughout the year with the Group regulator, the Bermuda Monetary Authority, in addition to key regulators in the principle subsidiaries, as part of an ongoing focus on cultivating open and transparent relationships with all key regulators. — 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 40 to 41 and 46 to 47. — The Board received regular updates on workforce engagement, via the Employee Liaison role (Anne MacDonald, Non Executive Director). Further details can be found on page 48.
Governance	<ul style="list-style-type: none"> — Approval of financial measures taken as a result of Covid-19 including: withdrawal of the 2019 final dividend, the 2020 interim dividend payment and 2020 share buybacks; the purchase of more than \$100 million of additional catastrophe reinsurance in the form of industry loss warranties; and a £375 million equity raise. — Appointment of the external facilitator for the 2020 Board evaluation and discussion of the outcomes of the Board evaluation review. Further details can be found on pages 68 to 70. — Approval of the Hiscox Responsible Investment Policy, the ESG exclusions policy and ongoing engagement with the ESG framework.
Risk, compliance and internal controls	<ul style="list-style-type: none"> — Oversight of all key risk, compliance, internal control and governance matters as detailed in the Audit Committee report on pages 71 to 73 and in the risk management section on pages 36 to 39. — Review of the changed control environment in the move to remote working due to Covid-19, which was found to be satisfactory. — Updates on key underwriting exposures (Hiscox view of risk), taking into account Covid-19.

liaise with management on activities aligned to their key skills, and attend appropriate management strategy and training events. They also have the opportunity to attend briefings with Executive Committee members and senior management, to understand key issues and conduct 'deep dives' on specialist subjects. In 2020, among other things, this included: marketing and branding; strategic assessment; workforce engagement; and digitisation. Specific sessions are held for succession planning and strategy.

Board evaluation 2020

The externally facilitated Board evaluation in 2020 was facilitated by Lintstock, further details of which can be found in the Nominations and Governance Committee report on pages 68 to 70.

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 in advance of 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.

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.

Compliance with the UK Corporate Governance Code 2018

As a company listed on the London Stock Exchange, the UK Corporate Governance Code (the Code) is applicable to Hiscox.

The Code sets out a set of 'comply or explain' provisions. This section, along with the corporate governance section on pages 57 to 62, provides meaningful disclosure on our application of the principles of each section of the Code in turn, and explains the rationale for any deviation from its provisions. A copy of the Code is available at frc.org.uk.

Section 1 of the Code: 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 57 to 62, 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 the business evolves, with the last comprehensive review undertaken in 2019. 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. For more information on our purpose and values see page 8.

The Board operates within a Group-wide governance framework which was also explicitly set out in a Board-approved governance manual during 2019. 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; risk oversight and setting the Group's risk appetite; and reviewing the Group's governance.

The Company's terms of reference explicitly state that the Board and its 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 pages 37 to 38, and the Audit Committee, whose work is outlined on pages 71 to 73. The Committees provide 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, Chief Executive, 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, ensuring shareholder engagement is not limited to the period following the publication of financial results or other significant announcements. Dialogue with shareholders has adapted throughout the period to respond to communicating remotely where needed.

In 2019, the Company formalised its approach to workforce engagement by establishing an Employee Engagement Network, which is led by Non Executive Director Anne MacDonald, who also now holds the role of Employee Liaison. The Board continues to engage with the workforce through both the pre-existing infrastructure and via the employee engagement network, to ensure that Hiscox is motivating and engaging employees in an effective way. The Employee Liaison is responsible for providing a summary of findings at Board meetings, and more information on the work of the employee engagement network during 2020 can be found on page 48.

Having a supportive and inclusive culture is important to us, and we track how employees feel about working at Hiscox through our annual global employee engagement survey. More information on our 2020 results can be found on page 46.

The Board, at least quarterly, assesses and monitors culture via a culture dashboard; wide metrics are used to ensure that the Board can have oversight of any issues and seek corrective action where it is not satisfied that policy, practices or behaviour throughout the business are aligned with the Company's purpose, values and strategy. More information on the culture dashboards can be found on page 48.

Diversity and inclusion remains as important as ever to our business, and we have policies and processes to ensure there is a balanced workforce and an appropriately diverse pipeline.

Data from Lloyd's of London shows that our efforts in gender diversity planning have delivered above market gender ratios and we continue to evolve our efforts, with a specific focus on improving our ethnic diversity.

The Company's whistleblowing policy ensure that employees feel empowered to raise concerns in confidence and without fear of unfair treatment. The structures and processes in place allows for the proportionate and independent investigation of any such matters, and for appropriate follow up action to be taken where necessary. The Board and the Audit Committee – whose Chair also who serves as the Group's whistleblowing champion – has oversight of whistleblowing and routinely receives reports arising from its operation.

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. With respect to 2020, the Committee determined that there are no conflicts which could cause an actual or potential conflict, and additionally there are no concerns regarding overboarding by Directors with adequate time available by all to carry out their duties.

Where Directors took on additional Board positions during the year, these were reviewed as part of our corporate governance processes and were not deemed to be significant to the extent that they would overburden Directors' time. There is no issue with the time commitments or availability of these Directors; this has been demonstrated throughout 2020 where all Directors have given additional time to the Company due to increased meetings regarding the pandemic response.



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 pages 108 to 110, while stakeholder engagement is covered on pages 40 to 41 and ESG on pages 42 to 49.

Section 2 of the Code: 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 57.

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 on behalf of the Board, more information of which is outlined on pages 76 to 105.

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 57.

The General Counsel and Company Secretary acts as a trusted adviser to the Board and its Committees, and ensures 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. 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.

The Board continues to believe that the Chairman's experience and expertise in underwriting and risk management remain a valuable asset in the performance of its functions. In 2019, following the introduction of the new provision of the Code, a more robust annual process was introduced which allows the question of the Chairman's tenure on the Board to be discussed by the Non Executive Directors (without the Chairman being present). This meeting happened in November 2020 and the meeting concluded, having taken soundings from all 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 the Chairman continues to show the independence of character and judgement necessary to chair the Board effectively.

Separately, 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 Board evaluation was an assessment of the independence of the Board, the role of the Chairman and the robustness of the Non Executive Director succession plan; the results of which were positive and are detailed on pages 68 to 70.

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).

Section 3 of the Code:

Composition, succession and evaluation

The current composition of the Board is set out on pages 52 to 53 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 57.

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 46 to 47 and 70.

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 of mind. 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 2020. 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 Board approved that Caroline Foulger could continue in office until May 2022, to allow for the completion of the 2021 financial statement process, as at this point Caroline continues to be independent.

The Nominations and Governance Committee plays a vital part in ensuring 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 68 to 70.

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 52 to 53.

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. These typically include visits to Hiscox offices, specific sessions on key business areas and upcoming developments, and inclusion at the annual Hiscox Partners event, attended by those employees who make significant contributions to the development and profitability of the Group, and which this year took place as an online event. 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. A number of Non Executive Directors also serve on the subsidiary boards of the major insurance carriers in the Group, which serves as an additional control with respect to subsidiary oversight of the Group.

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 52 to 53 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. The Nominations and Governance Committee was central to these reviews. Every third year, the Board evaluation is externally facilitated and this was the case in 2020. The external evaluation confirmed a strong, positive dynamic which fosters constructive discussion and decision-making. More information on the findings can be found in the Nominations and Governance Committee report on pages 68 to 70.



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 has served less than nine years as Chair, however, the Chairman has served as a Director prior to that and continues in that post for reasons outlined in Hiscox's response to section 2 of the Code.

Section 4 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, control and risk management systems, and to monitor 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 71 to 73. The risk management framework is set out on page 36.

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 to 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 108 to 111.



Hiscox's response to section 4 of the Code

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

Section 5 of the Code:

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 in 2019 ahead of its renewal in May 2020. 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 the opposite page.

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.

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

Factor	Consideration of how this is addressed for Hiscox
Clarity – remuneration arrangements should be transparent and promote effective engagement with shareholders and the workforce.	<ul style="list-style-type: none"> — Shareholders' views on the key changes to the policy are 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.	<ul style="list-style-type: none"> — Hiscox's remuneration framework is simple, comprising three main elements: <ul style="list-style-type: none"> i) fixed pay (base salary, benefits and pension); ii) annual bonus; and iii) performance share 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 on page 80.
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.	<ul style="list-style-type: none"> — 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. — The Committee has the ability to apply independent judgement to ensure that the vesting outcome of performance share awards 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 share awards are subject to a holding period following vesting. Deferred bonus and share grants 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.	<ul style="list-style-type: none"> — The range of possible values are set out in the performance scenario charts in the remuneration policy on page 104. — 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.	<ul style="list-style-type: none"> — 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.	<ul style="list-style-type: none"> — 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.

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 governance compliance, a review of conflicts and the approval of Group policies. The Committee is comprised of eight members (seven independent Non Executive Directors). The Chair of the Board is also Chair of the Nominations and Governance Committee.

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 of Board members and senior managers. This includes an annual review of succession plans for Executives and Non Executives, a process which is guided by the appointment and succession principles set out in the Group governance manual, and which was again carried out in 2020 across the Group.

As part of the Board succession planning process, the Nominations and Governance Committee reviewed the composition of the Board in 2020. This included a skills and experience review – encompassing independence, length of service, the balance of skills and experience, diversity, and the capacity required to oversee the delivery of the Company’s strategy – and Board succession planning on an immediate and longer-term basis for the Chair and all members of the Board. As part of this Board review, an appointment process was initiated for the replacement of Caroline Foulger as Director and Chair of the Audit Committee. Caroline’s nine-year term completes in January 2022. However, the Nominations and Governance Committee approved that Caroline could continue in office until May 2022 so that the financial cycle may be completed prior to the formal handover, as changing the Audit Chair mid-cycle could be detrimental to the process. The recruitment process for an Audit Committee Chair has been initiated, and the selection of an external search company is in progress.

The Nominations and Governance Committee also leads on Executive succession planning. There is an established and robust process which reviews the key talent plans throughout the Group across three time horizons; zero-to-two years,

two-to-five years and the watch list. The Group talent review is assessed by the Nominations and Governance Committee annually and fed into senior management performance development plans. This process is replicated at a business unit level to ensure they too have a sufficient pipeline of talent. Talent plans are also reviewed when vacancies arise; for example, in 2019, Joanne Musselle was identified as part of the talent plan for her predecessor and, following an open market exercise, was appointed as Group Chief Underwriting Officer.

Board evaluation

The Board and its Committees have a culture of continuous improvement and as part of this undertake a formal and rigorous annual evaluation of Board and Committee performance; the results of which help to inform appropriate action and development. Board and Committee effectiveness evaluations are carried out each year and the results are reviewed and discussed at the Board and each of the Committees. Every third year, the Board evaluation is undertaken by an external evaluator, as was the case in 2020.

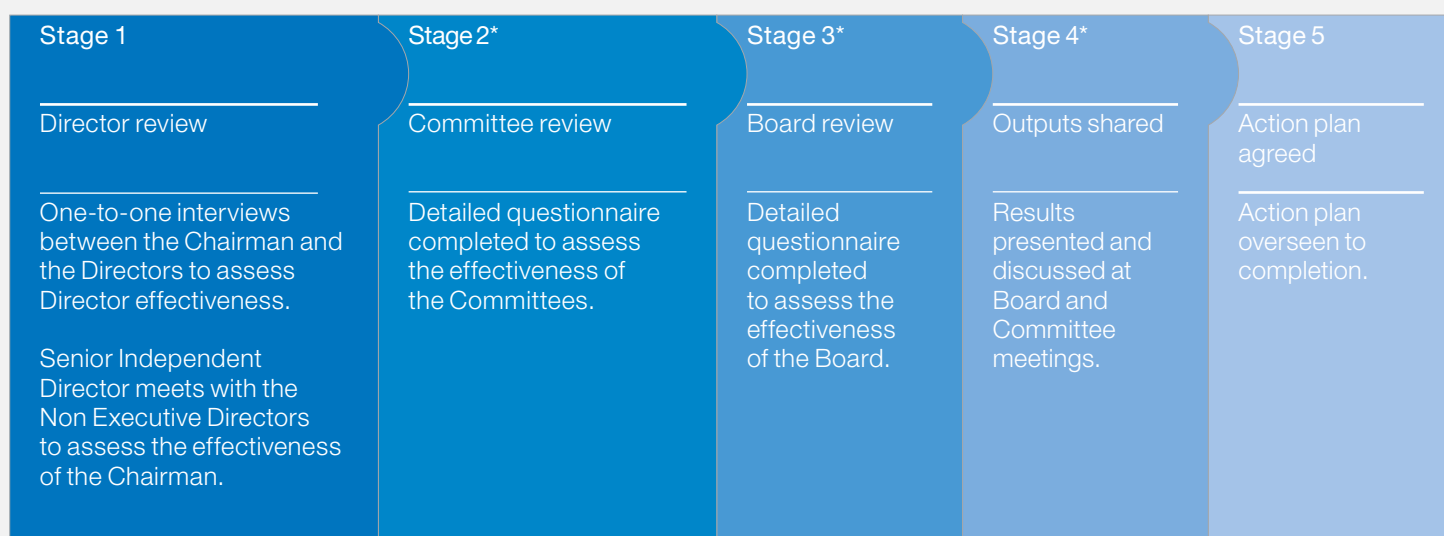
2020 external Board effectiveness review

A market review of third-party Board evaluation providers was carried out in early 2020, with Lintstock selected as the external Board evaluation facilitator for 2020. Lintstock is confirmed as independent; it provides no other services to the Company, and has no other connection with the Company or individual Directors, aside from having carried out the external Board effectiveness review in 2017 and the internal review in 2018. Lintstock engaged with key project sponsors to set the context for the evaluation and carried out the review in the fourth quarter of 2020 with a formal report to the Board in early 2021. All Board members were invited to complete a survey addressing the performance of the Board, the Chair and each of the committees, after which each of the Directors were interviewed by Lintstock representatives. The anonymity of the respondents was ensured throughout the process in order to promote an open and frank exchange of views. The key areas highlighted in the scope of the review included Lintstock’s assessment of the independence of the Board, the role of the Chair, and the robustness of Non Executive Director succession plans.

2020 outcomes

Lintstock presented the findings of their review, confirming that the findings were positive on the whole. 2020 has been a challenging year for all organisations but the fact that the Board has maintained a strong, positive dynamic that fosters

The Board evaluation process: assessing Board, Committee Chair and individual Director performance*



*Stages 2 to 4 were delivered as part of the external Board evaluation for 2020.

constructive discussion and decision-making was highlighted as being particularly noteworthy. The review was weighted towards a few particular themes, including:

- the independence of the Board, as currently composed, which was deemed satisfactory;
- the role of the Chair, who was seen to have demonstrated strong leadership over the past year; and
- the robustness of Non Executive Director succession plans, which continue to be given active consideration and are the subject of ongoing discussion as a part of the usual process of Director rotation.

The review included a number of key priorities for the Board to consider during the coming year, alongside a schedule of detailed recommendations to assist with the formulation of a robust action plan. As a result of the exercise, the Board agreed to focus on the following actions:

- maintaining its focus on the succession of Executive Directors and other key leadership positions below the Board;

- transitioning back to in-person meetings when Covid-19-related restrictions reduce, while retaining the use of video-conferencing for interim Board calls and updates;
- driving accountability and excellence in execution, including in the continued monitoring of progress against the Company's business priorities and key projects;
- continuing discussions on strategy, including business mix and capital allocation;
- devoting more time to considering changes in the external environment and their impact on Hiscox, including competitor activity in key markets; and
- maintaining its focus on talent management, employee engagement and the retention of high performers.

All Directors were fully engaged with the Board evaluation process. The Board welcomed the review's findings with the actions above feeding directly into ongoing succession planning discussions. The Chair is leading the implementation of these actions and will report on their delivery in the 2021 Annual Report and Accounts.

Chapter 1	3	Chapter 2	17	Chapter 3	51	Chapter 4	75	Chapter 5	107	Chapter 6	113
A balanced business		A closer look		Governance		Remuneration		Shareholder information		Financial summary	
				Nominations and Governance Committee report							

Individual Director reviews

Individual Director reviews are an opportunity to discuss individual skills, training requirements, succession and any other issues. No significant issues were raised in 2020. However, the Nominations and Governance Committee will continue to review the overall skills, succession and rotation of Directors.

Review of the prior year outcomes

In 2019, our internal annual evaluation of Board and Committee performance was updated to deliver an even more robust evaluation of Board, Committee Chair and individual Director performance. As part of this, the Committee reviewed the action plan to completion. Overall the prior year's Board and Committee effectiveness was rated as good or extremely good with no fundamental issues highlighted. The following themes of improvement were progressed throughout the year: additional development of strategy with a focus on competitor analysis; revised plans for focusing deeper in the organisation; continued engagement with management information to deliver better Board oversight; further review of the remuneration policy (see page 94); and enhancing the Executive succession planning process with an explicit Board and Non Executive Director succession planning process.

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 and a D&I Executive Sponsor for the Group who together drive 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. Our Board diversity statement, which is available on our corporate website, reflects the ethos of the Company in that opportunity should be limited only by an individual's ability and drive. Our Board diversity statement focuses on key requirements for appointments; it is also central to the preparation of Board appointments via the Board succession planning process which monitors skills, knowledge and experience in addition to diversity (both gender and ethnicity).

In 2020, we complied with the provisions of the Hampton-Alexander Review, which set a minimum target for FTSE 350 companies to achieve 33% representation of women on FTSE 350 boards and in the two layers of leadership below the Board (the Executive Committee and the direct reports to the Executive Committee) by the end of 2020.

Gender diversity at 31 December 2020

	Male	Female
Board	64%	36%
Executive Committee	60%	40%
Direct reports to the Executive Committee	57%	43%
All employees	50%	50%

We have also complied with the target of having at least one ethnic minority Director on the Board by 2021, as set out in the Parker Review.

In addition, we have fulfilled our UK obligations to report our gender pay gap ratios with respect to our UK subsidiaries, and published our fourth annual gender pay report during the year. This report sets out in detail the D&I programmes and initiatives we pursued during 2020, and can also be found on our corporate website.

Robert Childs

Chair 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; and
- any correspondence from third parties in relation to our financial reporting.

To aid the review, the Committee considered the key judgements and estimates in the financial statements as identified 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 2020 Annual Report and Accounts were:

i) Going concern assessment and longer-term viability statements

The Committee reviewed and advised the Board on the Group's going concern and longer-term viability statements included in this Annual Report and the assessment reports prepared by management in support of such statements. As part of this review, the Committee assessed the methods, assumptions and judgements underpinning the going concern assessment in particular around the consideration of the impact of and the uncertainties due to Covid-19 on the Group's current and projected capital and liquidity position. The Committee was satisfied by the level of analysis presented during the year, the related approach taken and statements made in the Group's key external reporting. More information on the going concern and viability statements can be found on pages 108 to 109.

ii) Reserving for insurance losses

As set out in our significant accounting policies on pages 134 to 135, 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 discusses both the approach taken by management in arriving at the estimates and also the key judgments within those estimates.

The Committee reviewed and challenged the key judgements and estimates in valuing the insurance liabilities. During the year, Covid-19 was the most significant loss event to impact the Group. It is important that the Company can quickly, and with a reasonable degree of reliability, estimate potential losses and, in the case of Covid-19, the robust and established large loss process was used to determine potential exposures and associated loss estimates. The estimate of insurance claims related to Covid-19 in 2020, after taking into account the Supreme Court Judgment for the UK insurance industry test case on the contractual interpretation of business interruption policy wordings, is \$475 million net of reinsurance. This loss estimate, along with other insurance claims, 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. The Committee received presentations from the Chief Actuary and management on the process undertaken and the judgements arrived at to establish key estimates. While there remains uncertainty around the final cost of these events to the Group, the Committee notes that the Group continues to adopt a prudent approach where uncertainty exists as to the final cost of settlement.

The Committee also reviewed the level of margin held within the insurance liabilities in the Group's balance sheet. Management confirmed that they remain satisfied that the claims reported and claims adjustment expenses, together with claims incurred but not reported liabilities included in the financial statements, provide an appropriate margin over projected claims costs to allow for the risks and uncertainties within the portfolio. As with the prior years, the Committee also considers the report of the external auditor following its re-projection of reserves using its own methodologies and the independent actuary who reviews the estimates of insurance liabilities for the Hiscox Syndicates. On the basis of this work,

it reported no material misstatements in respect of the level of reserves held by the Group at the balance sheet date. On the basis of these assessments and the consistent application of the Group's reserving principles, the Committee was satisfied that the valuation of insurance liabilities at 31 December 2020 were appropriate.

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. Sensitivity analysis on valuation of assets is captured within market risk section (note 3.3) of this report.

iv) Recoverability of goodwill and other intangible assets

Judgements in relation to impairment testing relate primarily to the assumptions underlying the calculation of the value in use of the Group's businesses, being the achievability of the long-term business plans and the macroeconomic and related modelling assumptions underlying the valuation process.

The Committee reviewed and discussed detailed reporting with management and challenged the appropriateness of the assumptions made, the consistent application of management's methodology and the achievability of the business plans.

The Committee focused its attention on the updates made to assumptions as a result of managements' assessment of the impact of Covid-19 on the forecast cash flows, the cash generating units most impacted and the extent of sensitivity analysis performed.

The impairment assumptions were reviewed and updated where required for the potential impact of, and uncertainties related to, Covid-19. The Committee is satisfied with the approach taken and the recoverability of those assets.

v) Accounting for the defined benefit scheme

As explained in note 2.15, 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.

vi) The recoverability of reinsurance assets

As a result of the large loss activity in the year predominantly due to Covid-19, the level of credit risk exposure to reinsurers has significantly 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 reinsurer panel and associated exposures appear to be robust, and management are not aware of any material issues regarding concentration risk, credit risk or default risk. This view is supported by assessments provided by S&P and the Group's reinsurance brokers. The Committee is satisfied with the approach taken and the recoverability of those assets.

vii) The recoverability of deferred tax assets

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 which will be available to utilise the tax losses. The deterioration in the economic environment together with significant Covid-19-related claims in 2020 has affected the results of the Group and its subsidiaries for the period and changed assumptions around the timing of when carried forward losses could be utilised. The Audit Committee challenged the underlying assumptions for the recognition of deferred tax assets, principally the availability of future taxable profits and utilisation period.

viii) Estimated premium income

Another key estimate contained within the Group's close process is an estimate of gross premiums written during the year. For certain contracts, premium is initially recognised based on estimates of ultimate premium. This occurs where pricing is based on variables which are not known with certainty at the point of binding the policy. In determining the estimated premium, the Group uses information provided by brokers and coverholders, as well as past underwriting experience, the contractual terms of the policy and prevailing market conditions. Subsequently, adjustments to those estimates arise as updated information relating to pricing variables becomes available – for example, due to declarations obtained on binding authority contracts, reinstatement premium on reinsurance

contracts or other policy amendments. The estimated gross written premium is regularly reviewed and the movements are sufficiently explained. The Committee is satisfied with the approach taken.

Systems and process change projects

The various systems and process change projects under way across the Group continued this year, particularly within the Retail business units and in finance, where a multi-year Group-wide finance transformation programme (FTP) has replaced outdated finance IT systems and controls. The Committee received quarterly updates on the status of the FTP which enabled it to monitor progress and provide challenge where necessary. This project successfully reached its conclusion this year, with the deployment of the remaining four of the nine systems. As is commonly the case, certain areas of finance continue to require short-term manual workarounds. However, the Committee is satisfied that the results of these are appropriate.

Internal audit

The Head of Group Internal Audit updates the Audit Committee at least quarterly on the progress of the internal audit plan, the outcomes of recent audits, the progress of related audit actions, and any other relevant activities including its key performance measures and the development of its resources.

The internal audit plan is derived using a risk-based approach. In 2020, key themes included core operating controls, the embedding of transformational change, the financial control framework, data governance and controls, the risk management framework, privacy and conduct risk.

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. The Committee also meets annually with the auditor and finance team without management present.

Subsequent to the 2020 year-end audit, the UK lead audit partner at PwC is required to rotate from the engagement, and this succession planning is well under way.

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.

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.

Fair, balanced and understandable

The Committee assessed whether the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's financial position and performance, business model and strategy. The Committee reviewed the processes and controls that underpin its preparation, ensuring that all contributors, and senior management are fully aware of the requirements and their responsibilities.

Caroline Foulger
Chair of the Audit Committee



The onus is on each of us to take responsibility.



Taking ownership of employee well-being

At Hiscox we genuinely care for our customers, for the business and for each other. When Covid-19 emerged, our first priority was the physical safety of our employees and their families. Then, as it became clear that lockdown measures would be prolonged, we recognised the need to further support employees who were struggling with the uncertainty and isolation of extended homeworking.

Enter WeMind, the mental health and well-being employee network at Hiscox. The members of this passion-led, employee-driven network became champions of well-being during lockdown. In the UK and Europe, their effective programme of activities included training for managers and employees on mental health for homeworkers, a weekly newsletter on an array of mental health topics, and a new employee award focused on kindness. In the US and Bermuda, WeMind's work ranged from a webinar series dealing with racial trauma following the death of George Floyd to the delivery of special 'wellness kits' to employees' homes. When we think about 'owning the moment', we could not be more proud of WeMind's efforts to help employees look after themselves during uncertain times.

Letter from the Chair of the Remuneration Committee

Dear fellow Shareholder

At Hiscox, our aim is to deliver strong returns across the insurance cycle and create sustainable long-term value for our shareholders. Our remuneration strategy continues to be designed to attract and keep talented, ambitious people, and foster a culture that encourages sustainable high performance in which pay reflects results, as well as effort.

The Committee believes that for all employees, basic pay should be competitive but not excessive, with bonuses reflecting personal performance, the profitability of their business area and the performance of the whole Group. 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, and I would like to thank shareholders for the high levels of support for our remuneration policy in 2020, when we made some important changes. These changes rebalanced the weighting of incentives towards the long term in order to encourage and support an ownership culture, increased the focus on long-term performance, and addressed our requirements under the UK Corporate Governance Code.

Response to Covid-19

The impact of a global pandemic has been wide and varied, and an overview of Hiscox's response can be found on pages 6 to 7. We have supported our employees globally in the transition to home-working and offered flexible working options to help with the new demands of juggling work life and home life. We have also provided socially distanced office working, in line with local government guidelines, and increased the provision of mental health and well-being services across the workforce to ensure all employees have access to appropriate support, advice and training. We have not furloughed any staff or accessed any of the UK, US or European government's support schemes.

Following the AGM, and acknowledging the unprecedented uncertainty caused by Covid-19, the Committee exercised its discretion to reduce the actual 2020 Performance Share Plan (PSP) award levels to approximately 160% of salary for Executive Directors (from 250% of salary as communicated in the 2019 Directors' remuneration report). In addition, in recognition of the withdrawal of the 2019 final dividend, we committed that Executive Directors would not be paid a bonus until the dividend has resumed.

Performance and remuneration outcomes

In 2020, the Executive Directors drove a resilient performance in a turbulent year. The top line was stable with gross written premiums of \$4,033.1 million (2019: \$4,030.7 million), despite the economic challenges brought on by Covid-19. The Group expects to pay \$475 million in Covid-19-related claims and as a result has delivered a pre-tax loss of \$268.5 million and a combined ratio of 114.5%. Excluding this impact, Hiscox's combined ratio was 97.0%, which reflects the underlying improvement in performance in many parts of the Group and the benefit of delivering around \$80 million in one-off expense savings – the result of a recruitment freeze and curtailment of travel and entertainment expenditure, alongside existing efficiency programmes already underway.

The Committee believes 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 83. While the business has made good progress against the priority areas set out in last year's report, it has not been immune to the external impacts of Covid-19 and the resulting economic contraction, which created some share price volatility during the period. Therefore, as the pre-tax ROE hurdle rate of 6% was not achieved, and taking into account the withdrawal of the 2019 final dividend, as well as the overall performance of the business, no bonuses were paid in respect of 2020 to Executive Directors.

The 2018-2020 Performance Share Plan was set against stretching net asset value plus dividends per share targets. The net asset value per share threshold of 7% over the three-year performance period was not met. The Committee assessed performance in the round and concluded that there would be no exercise of discretion to override the outcome of the performance conditions for 2020, therefore the awards granted in 2018 will lapse in full.

2021 remuneration

Executive Directors have been awarded a 2.0% salary increase effective from 1 April 2021, in line with the average UK employee increase.

There are no proposed changes to the award levels or structure of annual bonus awards, which will continue to be based on pre-tax ROE performance, alongside individual and strategic performance, including non-financial factors, the shareholder and wider stakeholder experience and consideration of risk. Bonuses will not be paid unless the Group's performance exceeds a hurdle rate of return set taking into account prevailing market conditions.

For the PSP, taking into account feedback received from a number of our shareholders and their representatives, we are proposing to introduce a second measure for the 2021 PSP awards to complement the growth in net asset value plus dividends metric, and provide a broader view of our performance. It is proposed that, for 2021 awards:

- 60% of the awards will continue to be based on stretching growth in net asset value (NAV) plus dividends targets. The Committee has reviewed the targets and decided that these will remain the same as for the 2020 awards, as disclosed in the 2019 Directors' remuneration report. These are considered to be very stretching targets in the current environment.
- 40% of the awards will be based on relative total shareholder return ('TSR') against a group of global insurance peers. The vesting schedule for the TSR element will be in line with UK market norms, with threshold vesting for median-ranked performance, and full vesting of this element for upper-quartile performance.

The Committee believes that relative TSR aligns to our strategy of generating long-term value for shareholders, benchmarking those returns versus our closest listed peers. Further detail on the 2021 PSP measures and targets are set out on page 88.

The Committee has reviewed the 2021 PSP award levels in the context of Company, individual, and share price performance. As previously set out, the Committee was proactive ahead of the 2020 PSP grant and, taking into account shareholder guidance, exercised its discretion to reduce the award levels up-front rather than wait to assess whether there are any 'windfall' gains at the point of vesting. Taking into account the increase in the share price since last year, the Committee has decided that the 2021 PSP award levels will revert back to the levels set out in the remuneration policy as approved by shareholders at the 2020 AGM (i.e. 250% salary). The Committee will review the PSP outcomes at the end of the performance period and retains 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.

Wider workforce

During the year the Committee was updated on wider workforce remuneration trends and policies to aid our understanding of how Executive Director's remuneration aligns to employees.

In the UK, Hiscox has been paying the living wage for a number of years and in November 2019 received accreditation

from the Living Wage Foundation. This approach ensures that everyone at Hiscox receives a wage that recognises the actual cost of living in the UK.

Hiscox also operates an all-employee Sharesave Scheme to foster a culture of ownership among the wider workforce. The scheme provides all employees with the opportunity to save over a three-year period and to purchase Hiscox shares at a discounted price, and it is popular – with over 60% of employees across the Group currently participating.

During 2020, remuneration arrangements across the organisation were reviewed and, below Board level, a new element has been introduced to the 2021 annual bonus criteria to incentivise and reward individual contribution, including individual contributions towards the delivery of business area priorities for the year. The 2021 Group-wide business priorities are outlined on page 13. The Committee discussed whether this would also be appropriate for the Executive Directors but determined that this was not the right time to make such a change, although this will be kept under review.

Executive Directors' pension benefits have always been consistent with the wider UK workforce, and Executive Directors receive either a 10% of salary cash allowance in lieu of the standard employer pension contribution or a combination of cash and pension contribution, totalling 10% of salary.

UK gender pay reporting

In 2020, Hiscox published its fourth annual gender pay report for the UK. The gender make-up of our business continues to evolve, and these changes are reflected in this year's numbers. The mean pay gap of 21.2% (26.1% prior year) shows our steady progress at getting more women into senior (and higher-paid) roles and we are pleased to see the year-on-year improvement since we started reporting.

The median figure of 25.0% (22.6% prior year) has been impacted this year by the introduction of part-time teams in our entry-level customer-facing roles. The majority of these lower-paid positions were filled by females, which has increased the proportion of women in our lower quartile and naturally altered the midpoint pay gap metric. Although its impact on our gender pay reporting is disappointing, the part-time teams have been a success in delivering our strategic objective of increasing tenure within our customer experience centre in York, and embracing flexible working opportunities has enabled new sources of talent to join us.

Improving diversity and inclusion remains a priority, and while our progress so far has been helped by the policies, processes and partnerships we have established, we recognise there is more to do. For more on our approach to D&I, and areas of focus in 2020, see pages 46 to 47 and 70.

In summary

The Remuneration Committee is satisfied that the 2020 outcomes are aligned with the experience of shareholders and reflective of performance in what has been a challenging year.

Colin Keogh

Chair 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 results-driven, with variable rewards if Hiscox delivers profits and shareholder returns in excess of specified return thresholds;
- incentivise Executive Directors appropriately, over the short and long term; and
- 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.

Summary of remuneration arrangements

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

[Read our updated remuneration policy.](#)



Remuneration outcomes for 2020

No bonus for Executive Directors following suspension of the dividend and not achieving the bonus performance hurdle.

Long-term performance impacted by Covid-19 events and catastrophe claims. PSP awards granted in 2018 will not vest.

Single figure of £717,243 for the CEO.

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 2020

Salaries for 2020:

- Bronek Masojada: £654,000
- Aki Hussain: £503,500
- Joanne Musselle: £503,500

Salary increase of 2.75%, in line with 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.

Maximum opportunity:

- up to 300% of salary for CEO and CFO;
- up to 400% of salary for CUO.

Over the past ten years, the average bonus to the CEO has been equivalent to 25% 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 2020 is provided on pages 82 to 83.

Deferral: part deferral of amounts in excess of £50,000.

2020 actual as percentage of salary:

- Bronek Masojada: 0%
- Aki Hussain: 0%
- Joanne Musselle: 0%

In recognition of the withdrawal of the 2019 final dividend, the Committee agreed that Executive Directors would not be paid a bonus until the dividend has resumed.

Award subject to three-year performance period and two-year holding period.

Maximum opportunity: 250% 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.

2020 award as percentage of salary:

- Bronek Masojada: c.160%
- Aki Hussain: c.160%
- Joanne Musselle: c.160%

Holding period: awards 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.

2020 actual:

- Bronek Masojada: 4,580%
- Aki Hussain: 159% Aki Hussain was appointed in September 2016.
- Joanne Musselle: 81% Joanne Musselle was appointed in March 2020.

Post-employment shareholding requirement: retain a shareholding at the level of the in-employment guideline for one year and half this amount for the following year.

Implementation for 2021

Salaries for 2021:

- Bronek Masojada: £667,000
- Aki Hussain: £513,500
- Joanne Musselle: £513,500

Salary increase of 2.0%, in line with the average UK employee increase.

Maximum opportunity, performance metrics and deferral unchanged.

Maximum opportunity and time horizons unchanged. 2021 award as a percentage of salary reinstated to 250% of salary, taking into account the increase in share price since the 2020 PSP grants. Measures based on NAVPS growth plus dividends (60% weighting) and relative TSR (40% weighting).

Share ownership and post-employment shareholding guidelines unchanged.

Annual report on remuneration 2020

This report explains how the remuneration policy was implemented for the financial year ending 31 December 2020 and how it will be applied for the 2021 financial year.

PwC has been engaged to audit the sections in the annual report on remuneration 2020 below entitled 'Executive Director remuneration' and 'additional notes to the Executive remuneration table, 'annual bonus', 'long-term incentives', 'Non Executive Director remuneration', 'Directors' shareholding and share interest', 'Performance Share Plan' and 'Sharesave Schemes', 'Payments to past Directors', 'Payments for loss of office', to the extent that would be required by the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2013.

Executive Director remuneration

2020									Total split
Name	Salary £	Benefits £	Bonus £	Long term incentive plan ¹ £	Retirement £	Total £	Fixed remuneration £	Variable remuneration £	
Bronek Masojada	649,625	10,533	0	0	57,085	717,243	717,243	0	
Aki Hussain	500,125	7,532	0	0	45,464	553,121	553,121	0	
Joanne Musselle ²	418,458	7,637	0	0	38,404	464,499	464,499	0	

2019									Total split
Name	Salary £	Benefits £	Bonus £	Long term incentive plan ¹ £	Retirement £	Total £	Fixed remuneration £	Variable remuneration £	
Bronek Masojada	632,375	10,252	0	0	55,569	698,196	698,196	0	
Aki Hussain	486,750	8,089	0	0	44,248	539,087	539,087	0	
Richard Watson ³	486,750	10,780	0	0	44,248	541,778	541,778	0	

¹2020 long-term incentives relate to performance share awards granted in 2018 where the performance period ends on 31 December 2020. The award is due to vest on 6 April 2021. Based on performance achieved, this award is due to lapse in full. As the award will lapse in full there is no part of the award attributable to share price appreciation.

²Joanne Musselle joined the Board 2 March 2020, following her appointment as Group Chief Underwriting Officer effective 1 January 2020. Details of Joanne's remuneration package on appointment were included in the 2019 Directors' remuneration report. All aspects of the package are in line with the remuneration policy. The figures in the 2020 table above relate to 2 March-31 December 2020.

³Richard Watson stepped down from the Board with effect from 31 December 2019.

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 2.75% from April 2020, the same as the average UK-based employee salary increase.

Base salaries for Executive Directors from 1 April 2020 were as follows:

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

Benefits

For 2020, benefits provided for Executive Directors included the healthcare scheme, Sharesave Scheme, life insurance, income protection insurance and critical illness policies, as well as a Christmas gift hamper.

Retirement benefits

Bronek Masojada and Aki Hussain both receive a 10% of salary cash allowance (less an offset for the employer's UK National Insurance liability) in lieu of the standard employer pension contribution. Joanne Musselle receives a combination of cash allowance and employer pension contribution totalling 10% of salary (less an offset for employer's UK National Insurance on the cash allowance). The value of these retirement benefits are shown in the Executive Director remuneration table on page 80. 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 2020 £000	Increase in accrued pension net of inflation £000	Transfer value of accrued pension at 31 December 2019 £000	Transfer value of accrued pension at 31 December 2020 £000	Increase/ (decrease) in transfer value of accrued pension during the year £000
Bronek Masojada	60	3	61	–	2,331	2,712	381

There are no further accruals under this plan. In the event of retirement prior to the normal retirement age, a reduced pension would be payable (in accordance with the scheme rules) to reflect the earlier payment date.

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 set taking into account prevailing market conditions.

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

As part of the policy renewal, the bonus opportunity was reduced to 300% of salary from 400% of salary for the Chief Executive Officer and Chief Financial Officer and to 400% of salary from 500% of salary for the Chief Underwriting Officer.

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 four occasions when the Group delivered a pre-tax ROE below the required threshold and no bonuses were paid to Executive Directors. A commitment was made in 2020 that Executive Directors would not be paid a bonus until the dividend had resumed, irrespective of the Group's performance.

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 2020, the Committee used the following framework. Actual bonus outcomes also take into account individual performance and risk management.

Pre-tax return on equity	Indicative bonus range (% of max)
<RFR +5%	0%
RFR +5% to RFR +10%	0-30%
RFR +9% to RFR +14%	25-55%
RFR +13% to RFR +18%	45-75%
RFR +16% to RFR +21%	65-90%
Greater than RFR +19%	80-100%

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 2020, the RFR was set at 1%. For 2020 a maximum bonus would have required ROE performance of at least RFR plus 20%.

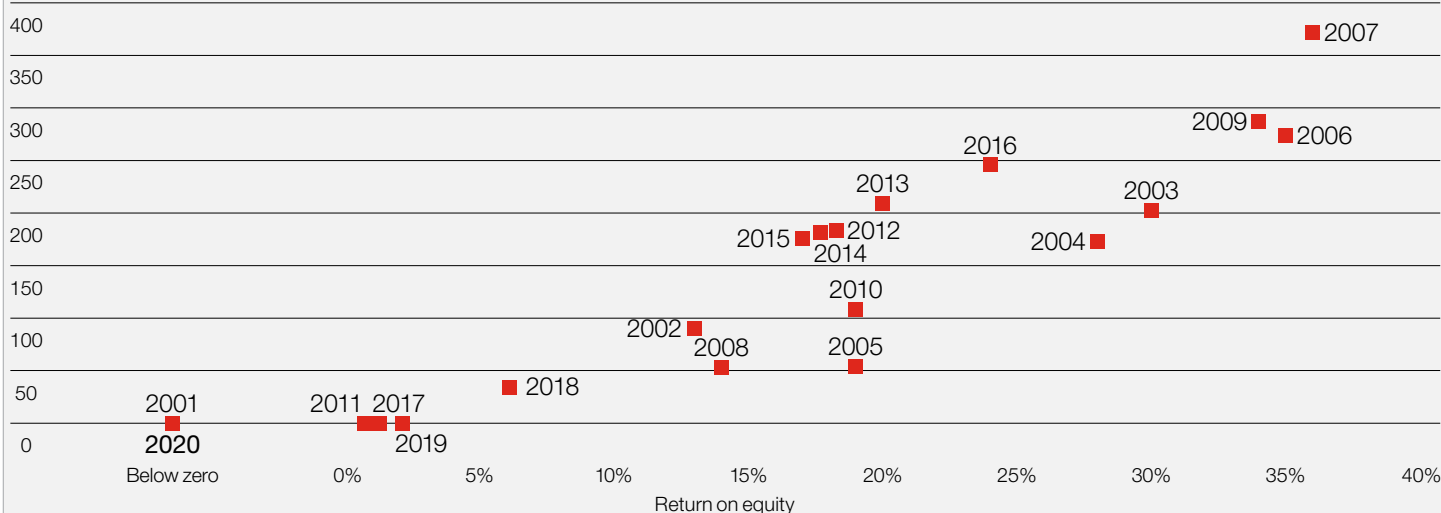
Junior and mid-level employees also participate in a personal performance bonus scheme. Awards under this scheme are based entirely on individual performance ratings. It is designed to ensure that junior and mid-level employees continue to be motivated to perform well, irrespective of overall Group performance.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

Bonus as a percentage of salary



Performance outcomes for 2020

In recognition of the withdrawal of the 2019 final dividend, the Committee agreed that Executive Directors would not be paid a bonus until the dividend has resumed. For completeness, the table opposite sets out the key objectives and individual achievements of each Executive Director. The pre-tax ROE for 2020 was -10.8%.

2020 key objectives and individual achievements by the Executive Directors

	Key objectives	Achievements
Bronek Masojada	Deliver the 2020 business plan	Bronek has led the business to deliver a stable top-line, despite the economic challenges brought on by Covid-19. The Group expects to pay \$475 million in Covid-19-related claims; however, excluding this impact, Hiscox's combined ratio was 97.0%, reflecting the underlying improvement in performance in many parts of the Group and the benefit of around \$80 million in one-off expense savings – the result of a recruitment freeze and curtailment of travel and entertainment expenditure, alongside existing efficiency programmes already underway.
	Deliver Executive Committee priorities	The multi-year priority of digital distribution, particularly across Hiscox Retail and in the big-ticket adoption of the Lloyd's PPL initiative, has been successfully accelerated during the year. Operational resilience became an increased focus for the Executive Committee in light of Covid-19, and the Group did well here, pivoting to remote working and maintaining good levels of service including paying \$1.9 billion in claims, despite the disruption.
	Ensure Hiscox operates within risk, regulatory and societal expectations	Bronek led the business's response to Covid-19 including Hiscox UK's efforts to provide clarity and certainty to business interruption policyholders via the FCA's UK business interruption test case. Commencing and concluding the legal process in just seven months is exceptionally fast and allows the business of paying valid claims to continue.
Aki Hussain	Balance sheet management	Aki oversaw the optimisation of the Group's capital and liquidity position to ensure ongoing financial flexibility, particularly in light of Covid-19. This included withdrawal of the 2019 final and 2020 interim dividend payments; the purchase of more than \$100 million of additional reinsurance, renegotiation of our bank lending facilities; and a £375 million equity raise. Consequently, the balance sheet remains strong and the Group can seize opportunities as they emerge.
	Enhancing profitability and ROE	Aki has ensured that ROE enhancing opportunities are identified through a repeatable process of cross-business unit and functions analysis and insight. This has driven consistency in how the Group identifies business that generates a sufficient return. Aki appointed a new CIO in 2020, which led to a repositioning of the portfolio to take advantage of market volatility in early 2020, increasing investment returns.
	Deliver finance transformation	Our multi-year finance transformation programme concluded this year with the deployment of the remaining four of the nine systems. A process of periodic reviews and assessments, including spotting new ways finance can contribute to business strategy, drive profits and increase shareholder value has also begun.
Joanne Musselle	Active portfolio management	Joanne leads the Group's efforts on continuous improvement in underwriting, which includes a focus on fixing or materially shrinking the bottom decile business while investing in top performing lines. Although Covid-19 had a significant impact on the 2020 underwriting year, the underlying loss ratio is promising; the result of discipline, remediation of underperforming lines – where poorest decile business exposure has reduced by 26% – and improving market conditions.
	Exposure management and view of risk	Joanne has driven continued investment in the Hiscox view of risk. In 2020, this included model changes for Japanese typhoon, US wind, US flood and Californian wildfire, an investment in enhanced modelling capabilities for both cyber and casualty risks, and detailed assessment of Covid-19-related third-party claims and/or recessionary trends to inform underwriting approach and adjustment where necessary.
	Developing underwriting talent	Joanne has continued to identify and develop underwriting talent, focusing on the key competencies and characteristics necessary not just for today but for the future. Partnering with a games development company, a new custom-built 3D simulation offers a different way of helping underwriters learn the key demands of the job.

Long-term incentives

Performance Share Plan awards (PSP) where the performance period ends with the 2020 financial year

The Executive Directors were granted nil-cost options under the PSP on 6 April 2018 for the three-year performance period 1 January 2018 to 31 December 2020.

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

	Growth in net asset value plus dividends	Proportion of PSP vesting measured on a per-share basis %
Minimum threshold vesting	RFR + 6 = 7	20
Maximum vesting	RFR + 14 = 15	100
Straight-line vesting between these points		

The risk-free rate (RFR) was set at 1%.

Performance outcome

Based on the three-year average growth in net asset value plus dividends of -2.04%, the awards ending with the 2020 performance year will not vest as the minimum performance threshold has not been met.

PSP awards granted during the 2020 financial year

The 2019 annual report on remuneration and remuneration policy, which were approved by shareholders at the 2020 AGM, provided for a maximum allowance for awards for the Executive Directors totalling 250% of salary. Acknowledging the unprecedented uncertainty caused by Covid-19, the Committee exercised discretion to reduce the awards payable to approximately 160% of salary. As a result of this, the additional stretch targets for awards above 200% of salary, as set out in the 2019 Directors' remuneration report, do not apply to this award.

On 15 May 2020, the Executive Directors were granted nil-cost options under the PSP as shown below.

	Number of awards granted	Market prices at date of grant* £	Market value at date of grant £
Bronek Masojada	156,000	6.998	1,091,688
Aki Hussain	120,500	6.998	843,259
Joanne Musselle	120,500	6.998	843,259

*The middle market quotation on the date of grant (15 May 2020) was £6.998. The middle market quotation immediately prior to grant (14 May 2020) was £6.744 which corresponds to an award level of c.160% of salary.

The performance condition for these awards, measured over the period 1 January 2020 to 31 December 2022 is as follows:

	Growth in net asset value plus dividends	Proportion of PSP vesting measured on a per-share basis %
Minimum threshold vesting	RFR + 6 = 7	20
Maximum vesting	RFR + 14 = 15	100
Straight-line vesting between these points		

The net asset value plus dividends 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 2020 was 1%.

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).

Non Executive Director remuneration

The table below sets out the remuneration received by the Non Executive Directors for the financial years ending 31 December 2020 and 31 December 2019.

	Ltd Board fee £	Ltd Committee fee £	Subsidiary Board fee £	Benefits ¹ £	Total Hiscox fees £	Total split	
						Fixed £	Variable £
2020							
Robert Childs (Chairman) ²	295,000	–	–	11,655	306,655	306,655	–
Caroline Foulger	62,774	35,766	88,956	–	187,496	187,496	–
Michael Goodwin	62,774	28,467	32,847	–	124,088	124,088	–
Thomas Hürlimann	62,774	28,467	52,212	–	143,453	143,453	–
Colin Keogh	75,182	35,037	48,000	–	158,219	158,219	–
Anne MacDonald	70,073	28,467	–	–	98,540	98,540	–
Constantinos Miranthis	62,774	28,467	35,766	–	127,007	127,007	–
Lynn Pike	62,774	33,577	56,934	–	153,285	153,285	–
2019							
	Ltd Board fee £	Ltd Committee fee £	Subsidiary Board fee £	Benefits ¹ £	Total Hiscox fees £	Fixed £	Variable £
Robert Childs (Chairman) ²	290,000	–	–	11,860	301,860	301,860	–
Caroline Foulger	67,398	36,834	89,469	–	193,701	193,701	–
Michael Goodwin	67,398	28,997	22,727	–	119,122	119,122	–
Thomas Hürlimann	67,398	28,997	50,000	–	146,395	146,395	–
Colin Keogh	79,937	35,266	47,000	–	162,204	162,204	–
Anne MacDonald	67,398	28,997	–	–	96,395	96,395	–
Robert McMillan ³	25,344	10,904	62,696	–	98,943	98,943	–
Constantinos Miranthis	67,398	28,997	37,618	–	134,013	134,013	–
Lynn Pike	67,398	34,483	61,783	–	163,664	163,664	–

¹Benefits include life assurance and healthcare.

²Robert Childs also chairs subsidiary Boards for no additional fee. The total 2019 fee has not changed but the presentation has been amended in order to be consistent with 2020.

³Robert McMillian stepped down from the Ltd Board following the May 2019 AGM.

Fees are paid in multiple currencies – 2019 fees were converted using £1: €1.14 and £1: \$1.276. 2020 fees were converted using £1: €1.13 and £1: \$1.37.

Membership of the Remuneration Committee

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

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 has over 20 years' service so his shareholding of 4,580% far exceeds the guidelines. Aki Hussain and Joanne Musselle have not yet been Executive Directors for five years. Aki Hussain's shareholding is 159% and Joanne Musselle's is 81%, using the closing share price on 31 December 2020.

There is a post-employment shareholding guideline for 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. On 8 January 2021, Colin Keogh received 1,404 shares in lieu of fees, otherwise there have been no changes in the Director share interests between 31 December 2020 and 3 March 2021.

	31 December 2020 6.5p ordinary shares number of shares beneficial	31 December 2019 6.5p ordinary shares number of shares beneficial
Directors		
Executive Directors:		
Bronek Masojada	3,014,225	2,990,109
Aki Hussain	80,786	71,794
Joanne Musselle	40,798	33,106
Non Executive Directors:		
Robert Childs	1,208,502	1,200,810
Caroline Foulger	29,000	13,231
Michael Goodwin	12,678	4,986
Thomas Hürlimann	15,786	8,863
Colin Keogh	39,695	24,967
Anne MacDonald	39,893	35,375
Constantinos Miranthis	6,832	4,525
Lynn Pike	1,538	–

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:

Name	Number of awards at 1 January 2020	Number of awards granted	Number of awards lapsed	Number of awards exercised	Number of awards at 31 December 2020	Mid market price at date of grant £	Average market price at date of exercise £	Date from which released
Bronek Masojada	130,950	–	–	–	130,950	6.94		17-Mar-17*
	117,006	–	–	–	117,006	8.82		13-Apr-18*
	59,301	–	–	–	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
	–	156,000	–	–	156,000	7.00		15-May-23
Aki Hussain	36,873	–	–	–	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
	–	120,500	–	–	120,500	7.00		15-May-23
Joanne Musselle	32,361	–	–	–	32,361	5.68		02-Apr-16*
	29,694	–	–	–	29,694	6.94		17-Mar-17*
	24,750	–	–	–	24,750	8.82		13-Apr-18*
	9,883	–	–	–	9,883	9.56		08-Apr-19*
	25,000	–	(25,000)	–	–	11.19		07-Apr-20
	30,000	–	–	–	30,000	14.88		06-Apr-21
	30,000	–	–	–	30,000	15.46		08-Apr-22
	–	120,500	–	–	120,500	7.00		15-May-23
Total	992,318	397,000	(205,000)	–	1,184,318			

*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 on an average share price over five days prior to the invitation date, with a 20% discount. Sharesave options are not subject to performance.

	Number of options at 1 January 2020	Number of options granted	Number of options lapsed	Number of options exercised	Number of options at 31 December 2020	Exercise price £	Market price at date of exercise £	Date from which exercisable	Expiry date
Bronek Masojada	1,040	–	–	(1,040)	–	8.648	11,085	01-Jun-20	30-Nov-20
	778	–	–	–	778	11.556		01-May-21	31-Oct-21
Aki Hussain	2,081	–	(2,081)	–	–	8.648		01-Jun-20	30-Nov-20
Joanne Musselle	1,557	–	–	–	1,557	11.556		01-May-21	31-Oct-21
Total	5,456	–	(2,081)	(1,040)	2,335				

Payments for loss of office

No payments were made during the year for loss of office.

Payments to past Directors

No payments were made to former Directors during the year.

Implementation of remuneration policy for 2021

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 2021, salaries for Executive Directors will be increased by 2.0%. This is in line with other UK-based employees. Salaries from April 2021 will be as follows:

	April 2021 £
Bronek Masojada	667,000
Aki Hussain	513,500
Joanne Musselle	513,500

Annual bonus

The maximum opportunity for the year ending 31 December 2021 will remain unchanged from 2020, being 300% of salary for both the Chief Executive Officer and Chief Financial Officer and 400% of salary for the Chief Underwriting Officer. 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. Bonuses will not be paid unless the Group's performance exceeds a given ROE threshold. This threshold and the ranges used to support the Committee's decision-making are considered to be commercially sensitive at this time and will be disclosed in the 2021 Directors' remuneration report, together with an overview of the individual objectives set and performance against these.

Performance Share Plan (PSP)

In line with our shareholder-approved remuneration policy, the maximum opportunity for the awards to be granted to the Executive Directors in 2021 will be 250% of salary. Awards will continue to be based on a three-year performance period followed by a two-year holding period.

For 2021, 60% of awards will be based on stretching growth in net asset value (NAV) plus dividends targets, measured on a per share basis with 40% based on relative total shareholder return (TSR) against a group of global insurance peers.

The Committee considers that growth in NAV continues to be a key 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. The targets for the 2021 awards are unchanged from those set out in the 2019 Directors' remuneration report and the Committee considers that they are very stretching targets in the current environment.

Growth in NAV plus dividends measured on a per-share basis	Award vesting (% of maximum)*
Less than RFR + 6% p.a.	0
RFR + 6% p.a.	16
RFR + 14% p.a.	80
Equal to or greater than RFR +17% p.a.	100

The risk-free rate (RFR) will be 0% for 2021.

*Applies to 60% of awards. Maximum is 250% salary. Straight-line vesting in between each point.

Chapter 1 A balanced business	3	Chapter 2 A closer look	17	Chapter 3 Governance	51	Chapter 4 Remuneration Implementation of remuneration policy for 2021	75	Chapter 5 Shareholder information	107	Chapter 6 Financial summary	113
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Relative total shareholder return has been selected as a measure for the 2021 awards to complement the absolute NAV metric and is aligned to our strategy of generating long-term value for shareholders, benchmarking those returns versus our closest listed peers. The vesting schedule for the element of the award based on TSR is set out below.

Relative TSR	Award vesting (% of maximum)*
Below median	0
Median	20
Upper quartile	100

*Applies to 40% of awards. Straight-line vesting in between each point.

The peer group will consist of the following 24 companies: Admiral Group, Alleghany, American Financial Group, Arch Capital, Argo, Axis Capital, Beazley, Conduit, Cincinnati Financial, CNA Financial, Direct Line Insurance Group, Everest Re, Fairfax Financial Holdings, Hanover Insurance, James River Group, Kinsale Capital Group, Lancashire Holdings, Markel, QBE, Renaissance Re, RLI, SCOR, White Mountains Insurance Group, and WR Berkley.

Non Executive Director fees

The Non Executive Director fees which apply for 2021 are set out below. These remain unchanged from 2020.

	2021 fees
Board Chairman and subsidiary services	£295,000
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

Other remuneration matters

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 and Pool Reinsurance Company Limited and was Chair of Policy Placement Limited. Bronek Masojada was remunerated £42,090 for his Directorship at Pool Reinsurance Company Limited. Aki Hussain held a Directorship at VISA Europe Limited and received a fee of £115,000. Joanne Musselle was remunerated £18,500 for her Directorship at Realty.

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 £78,700 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 Chief Human Resources Officer 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.

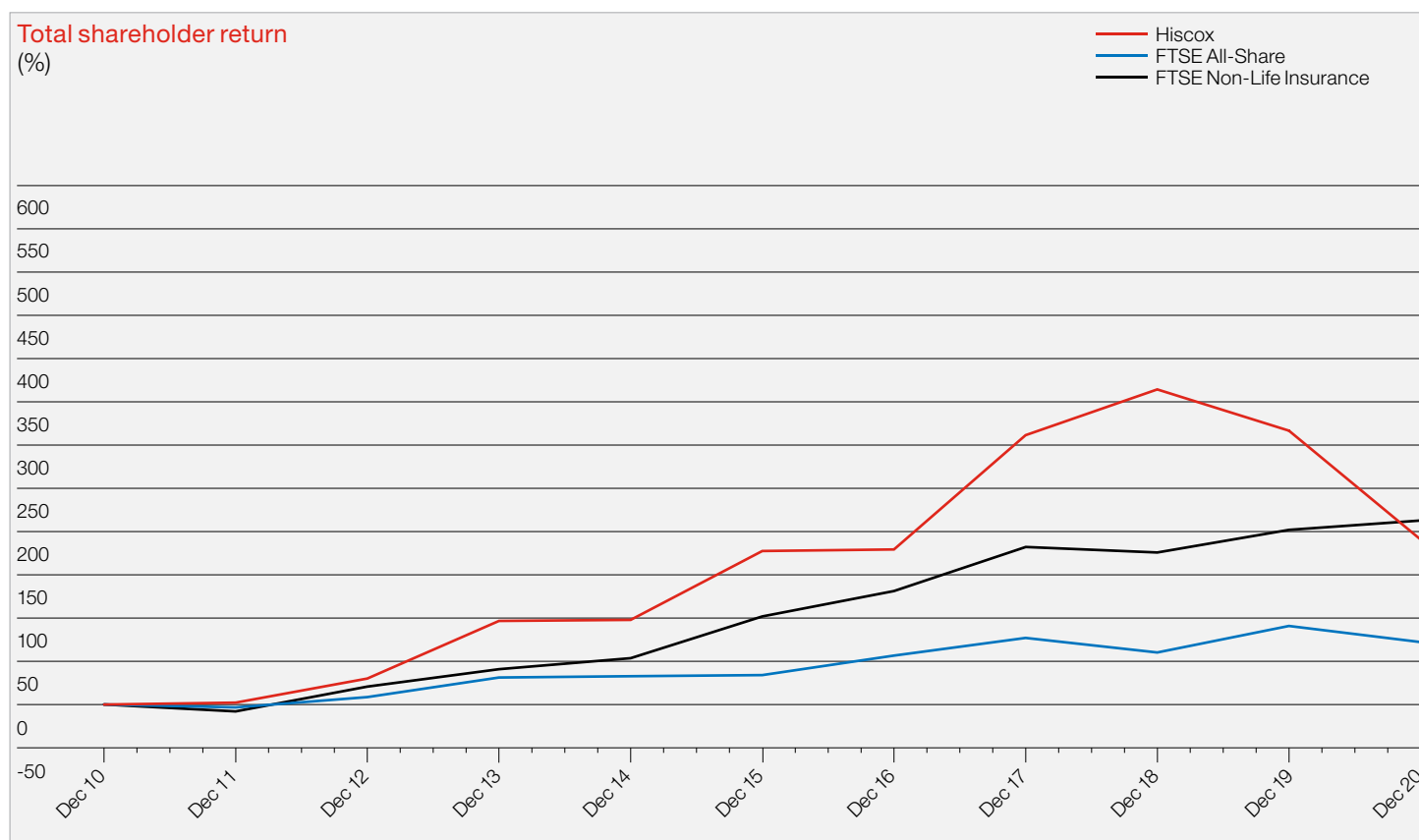
Statement of shareholder voting

At the AGM on 14 May 2020, the Directors' annual report on remuneration and remuneration policy received the votes below from shareholders.

	Annual remuneration report	Remuneration policy
For	238,930,420	230,333,655
%	99.44	95.86
Against	1,352,487	9,949,668
%	0.56	4.14
Withheld	33,014	32,597
Total votes	240,315,921	240,315,920

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 2010 and 2020, Hiscox delivered total shareholder return of 190%.



Chief Executive historic remuneration

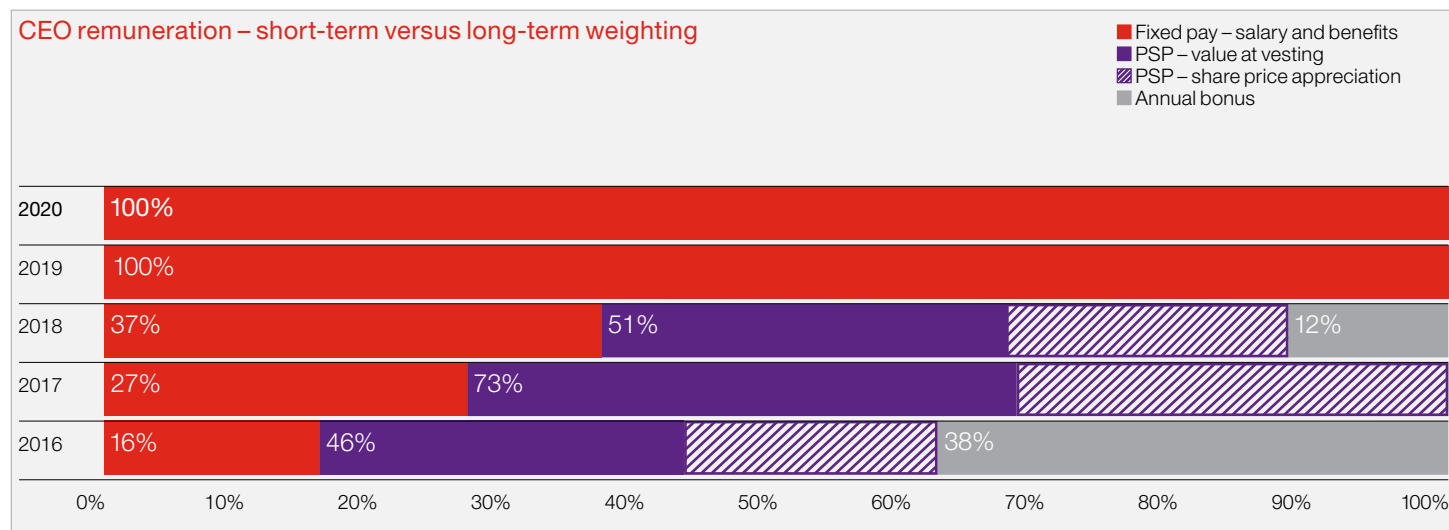
The table below shows the single total remuneration figure for the Chief Executive for the past ten years.

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
CEO single figure of remuneration (£)	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	717,243
Annual bonus as percentage of current max	0	46	51	44	39	64	0	9	0	0
PSP vesting as percentage of maximum opportunity	85	39	53	100	100	100	85	47	0	0

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

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 five years.



Comparator data

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. No employees were furloughed and all were offered flexible working options to help juggle the demands of work life and home life during 2020.

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 2020 is shown below, along with the 25th and 75th percentiles.

We selected calculation method 'Option A' as it is the more robust approach and favoured by investors. This method captures all pay (excluding overtime due to its volatility) and benefits for the financial year to 31 December 2020 and aligns with how the 'single figure' table is calculated (from which there has been no deviation). Part-time employee single figures were annualised to provide more meaningful comparison.

Full year	Calculation methodology	P25 (lower quartile)	P50 (median)	P75 (upper quartile)
2020	A	20:1	12:1	8:1
2019	A	19:1	11:1	7:1

The table below shows the salary and total remuneration of each employee at the quartile positions.

	P25 £	P50 £	P75 £
2020			
Salary	30,342	50,116	68,915
Total remuneration	35,481	59,980	92,461
2019			
Salary	29,607	52,248	81,145
Total remuneration	36,210	61,155	94,661

The Committee has considered the pay data for the three employees identified and believes that it fairly reflects pay at the relevant quartiles among the UK employee population. There has been minimal change in the ratios over the last year, primarily as a result of the CEO not receiving a bonus in either year and the long-term incentives lapsing. In future years the expectation is that the ratios will be higher and more variable as the remuneration of our most senior executives, including the CEO, is more highly performance geared than other roles in the business. The Committee is comfortable that the pay ratio for 2020 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.

Percentage change in remuneration of the Board Directors

The table below shows the percentage change in remuneration for each Executive and Non Executive Director, between the year ended 31 December 2019 and 31 December 2020. Salary and bonus are compared against all employees globally, benefits are compared against all UK-based employees, reflecting the location of the Executive Directors.

	% change		
	Salary/fees	Benefits	Bonus ²
All employees¹	4.3	5.9	(36.1)
Executive Directors:			
Bronek Masojada	2.8	2.7	–
Aki Hussain	2.8	(6.9)	–
Joanne Musselle ³	–	–	–
Non Executive Directors:⁴			
Robert Childs	1.7	(1.7)	–
Caroline Foulger	(3.2)	–	–
Michael Goodwin	4.2	–	–
Thomas Hürlimann	(2.0)	–	–
Colin Keogh	(2.5)	–	–
Anne MacDonald	2.2	–	–
Constantinos Miranthis	(5.2)	–	–
Lynn Pike	(6.3)	–	–

¹Median employee salary, benefits and bonus have been calculated on a full-time equivalent basis. Salary and benefits are calculated as at 31 December, bonus is that earned during the year ending 31 December.

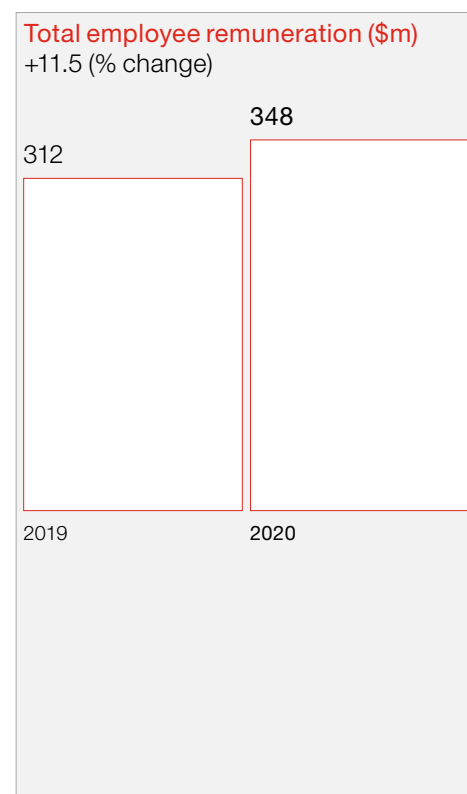
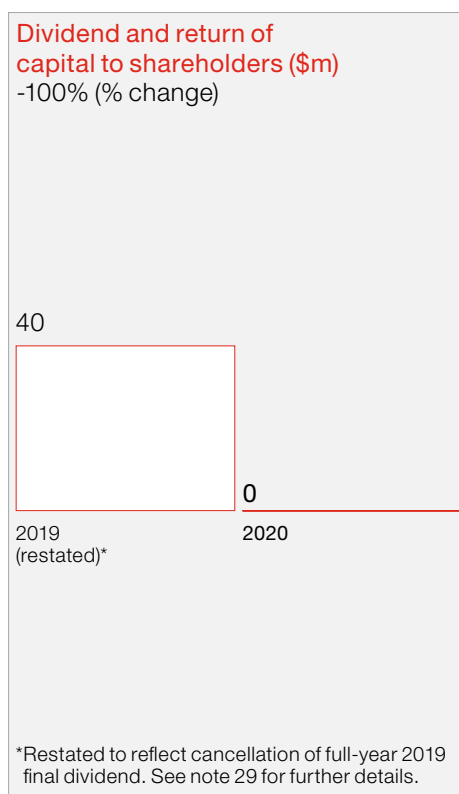
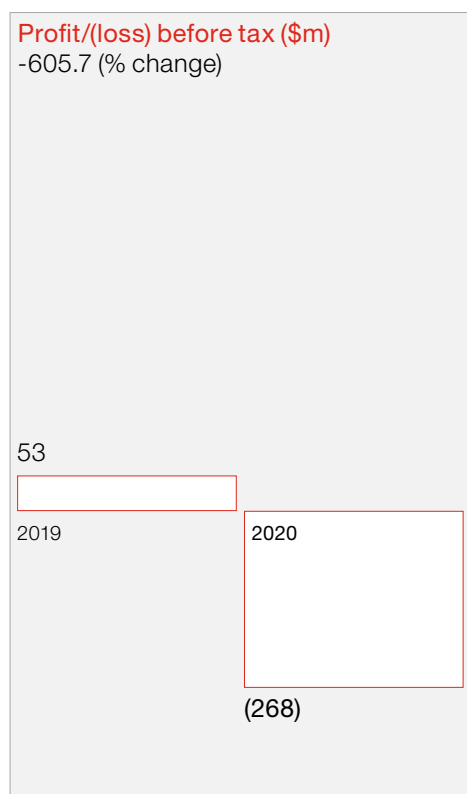
²No bonuses were paid to Executive Directors in respect of 2019 and 2020.

³Joanne Musselle was appointed to the Board on 2 March 2020.

⁴Non Executive Director fees are subject to exchange rate fluctuations.

Relative importance of the spend on pay

The charts below show the relative movement in profit, shareholder returns and employee remuneration for the 2019 and 2020 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 122.



Remuneration policy

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

The policy was approved at the 2020 AGM and is replicated below, including how it will be implemented in 2021 shown in italics. The original policy can be viewed in the 2019 Annual Report and Accounts at hiscoxgroup.com.

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 2021 are set out on page 88.

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 2021, 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 82.

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; and
- consideration of risk.

Amounts are paid in accordance with the bonus deferral mechanism described on page 97. 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 101.

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 82.

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	£50,000, €75,000, \$100,000, paid shortly after the end of the financial year in which the bonus was achieved.
Bonus above €75,000 and below €150,000	
Bonus above \$100,000 and below \$200,000	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 101.

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 86.

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 101.

Maximum potential value

Maximum annual grant of up to 250% of salary in respect of any one financial year.

Performance metrics

The performance conditions for awards are set to align with the long-term objectives of the Company.

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 2021 awards, an additional measure of relative TSR will apply to awards alongside growth in net asset value plus dividends per share.*

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 101.

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 89.

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 82) 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:

- agreed before 15 May 2014 when the first approved remuneration policy came into effect;
- 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
- 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 onwards 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; and
- 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 94 to 100. 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. For 2021, a separate individual and strategic element has been introduced for employees below Board to incentivise and reward individual contribution and delivery of key strategic objectives.

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.

While 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.

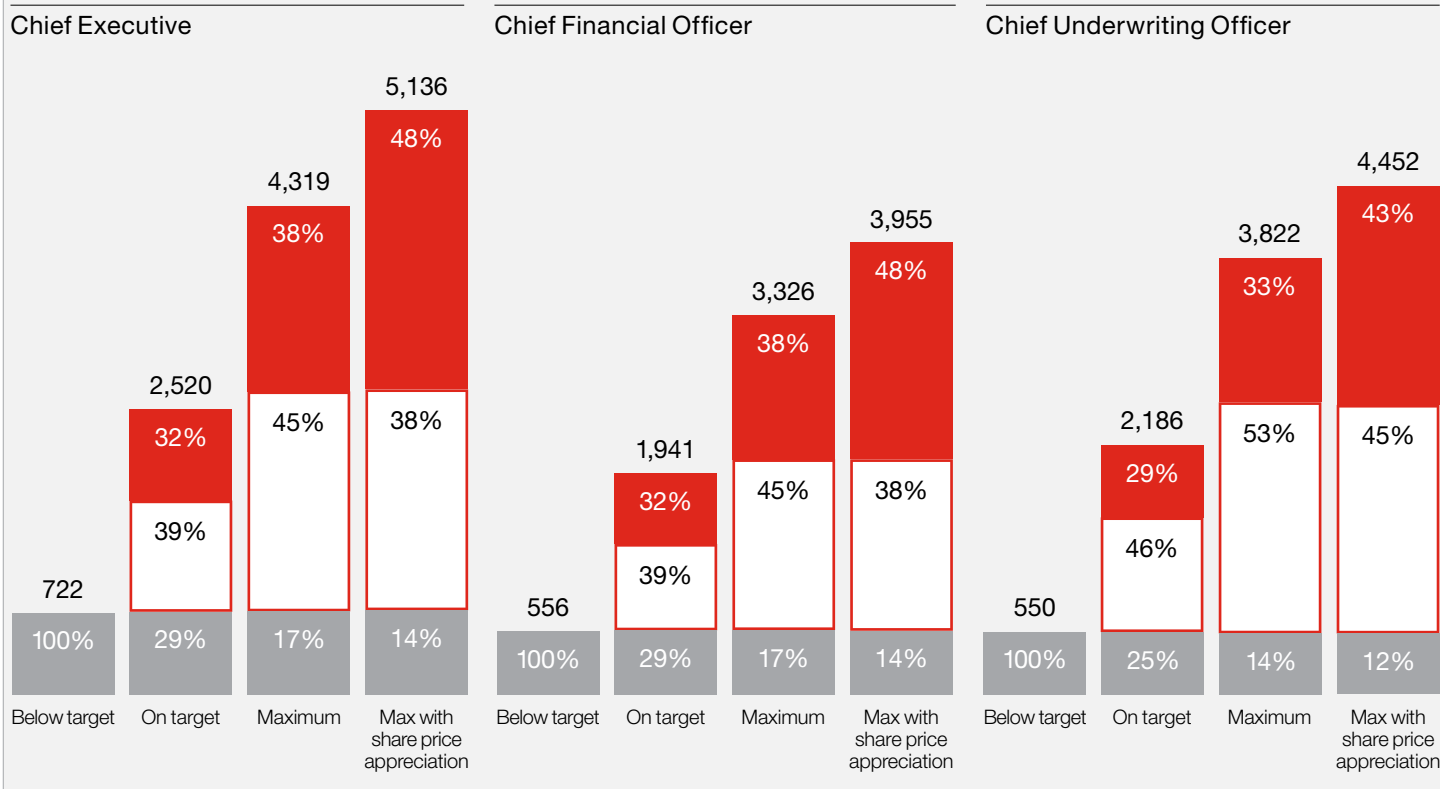
Consideration of shareholder views

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. In anticipation of introducing TSR as an additional performance metric for the PSP in 2021, the Committee wrote to major shareholders, ISS, Glass Lewis and the Investment Association. All responses received were positive and no major concerns were raised.

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

■ Long-term variable remuneration
□ Annual variable remuneration
■ Fixed remuneration



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 2020.
- Benefits as received during 2020, as disclosed in the Executive Director remuneration table on page 80.
- Retirement benefit as received during 2020, as disclosed in the Executive Director remuneration table on page 80.

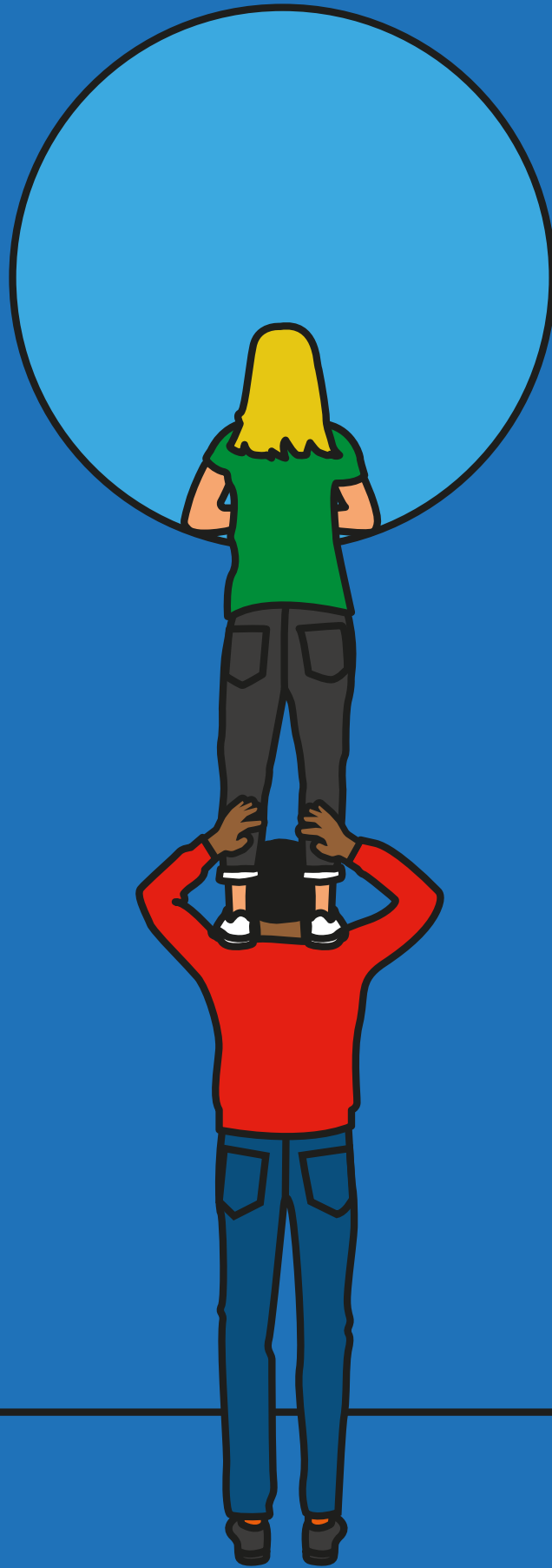
Variable remuneration

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 98. 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. <ul style="list-style-type: none"> — 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. <ul style="list-style-type: none"> — 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. <ul style="list-style-type: none"> — 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%.



Be ambitious,
accountable, pragmatic,
tenacious and proudly
high-achieving.



**Owning our contributions to the
local community**

Contributing to the communities in which we live and work has long been a feature of our business; it is important to us, and it is reflected in our values. The tragedies resulting from Covid-19 have underscored this and we have been pleased to play our part and ‘own’ our commitment to our communities during a time of need. During 2020 we pledged over \$9 million to support a range of causes affected by the global pandemic, and our employees found new ways to give back – with many choosing to use the time they would have previously spent commuting to volunteer locally.

The impact of our charitable donations has been diverse and far-reaching; from the ventilators and essential PPE we helped purchase for hospitals in Bermuda and Guernsey, to the 630 meals we helped deliver to vulnerable New Yorkers or the 9,710 meals provided to hard-working NHS staff. Our impact has also been realised through the many meaningful ways that individual employees have contributed – volunteers like Olivia, a London-based staff member who used her extra time during lockdown to become a career mentor to under-served young people in her local area.

Directors' report

The Directors have pleasure in submitting their Annual Report and consolidated financial statements for the year ended 31 December 2020.

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 21 to 33, 36 to 39, 122 to 186 and 188 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 4 to 5. 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 21 to 33. 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 10 to 11. 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 12 and the risk management section on pages 36 to 39. 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 63 to 67.

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 12.

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 57 to 62 in this report.

Diversity

The diversity of the business is outlined in the Nominations and Governance Committee report on pages 68 to 70.

Financial results

The Group delivered a pre-tax loss for the year of \$268.5 million (2019: profit of \$53.1 million). Detailed results for the year are shown in the consolidated income statement on page 122.

Going concern

A review of the financial performance of the Group is set out in the Chief Executive's report on pages 21 to 33. The financial position of the Group, its cash flows and borrowing facilities are included in the capital section on pages 34 to 35. The Group has considerable financial resources and a well-balanced book of business.

The Board has reviewed the Group's current and forecast solvency and liquidity positions for the next twelve months and beyond. As part of the consideration of the appropriateness of adopting the going concern basis, the Directors use scenario analysis and stress testing to assess the robustness of the Group's solvency and liquidity positions. To make the assessment, the Group constructed a combined scenario which included applying material sensitivities to (re)insurance claims relating to Covid-19, modelling a significant catastrophe loss and a default in the Group's reinsurance programme. An aggregated scenario such as this, and the sequence of events it involves, is considered to be remote and there are mitigating recovery actions that have been and can be taken further to restore the capital position to the Group's target range.

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

After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence over a period of at least 12 months from the date of this report. For this reason, the Group continues to adopt the going concern basis in preparing the consolidated financial statements.

Longer-term viability statement

The preparation of the longer-term viability statement includes an assessment of the Group's long-term prospects in addition to an assessment of the ability to meet future commitments and liabilities as they fall due.

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 12 and the risk management section on pages 36 to 39, 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 2023 and is underpinned by management's 2021-2023 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 Board acknowledges in a Covid-19 environment the certainty of those plans, the potential fluctuations in the global economy, the impact on competitors and customer behaviours in a post-Covid-19 world remains uncertain. In making the viability statement, the Board carried out, as part of the own risk and solvency assessment (ORSA) process, a robust assessment using scenario analysis and stress testing to consider 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 these assessments, the Board confirms that it has 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

In the face of the uncertainty arising from Covid-19 and the losses it generated, the Board took the decision not to declare a 2019 final or 2020 interim dividend. In view of the full year loss and a desire to have capital to deploy into a strong market, the Board has also taken the decision not to declare a 2020 final dividend for shareholder approval. The Board believes that as our business delivers the 2021 business plan and as profits flow through, it expects, subject to the Board being satisfied that it is appropriate to do so, to resume paying dividends with the 2021 interim results.

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 2020 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.

Hiscox Ltd was authorised to allot shares in 2020. With respect to the share placing undertaken in 2020, as previously disclosed, the level of discount achieved was 6.1% and the net proceeds raised were £375 million. This has provided additional flexibility throughout the year to respond to growth opportunities and rate improvement, particularly in big-ticket lines. The percentage increase in issued share capital due to non pre-emptive issuance for cash over the three-year period preceding the issue was 19.99%.



The notice of the Annual General Meeting will be held on 13 May 2021.

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 52 to 53. Details of the Chairman's professional commitments are included in his biography on page 52. 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. Biographical details of the Directors are set out on pages 52 to 53, 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 below.

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 18 February 2021*
Sun Life Financial Group	30,599,289	8.83
The Capital Group Companies, Inc.	29,757,411	8.59
Fidelity Management & Research	26,481,266	7.64
BlackRock, Inc.	22,104,652	6.38

*There were 346,431,494 shares in issue (excluding Treasury shares) as at 18 February 2021.

As at 1 March 2021, no changes have been notified to the Company.

Political donations and charitable contributions

The Group made no political donations during the year (2019: \$nil). Information concerning the Group's charitable activities is contained in the environmental, social and governance (ESG) section on pages 42 to 49 and at hiscoxgroup.com/responsibility.

Climate-related matters

In preparing and signing off this report, the Board has considered the relevance of material climate-related matters, including climate change and transitional risks. Climate-related matters are regularly discussed by the Board, and most recently this included Board approval of a new ESG exclusions policy for underwriting and investments. For more information, see page 44.

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 2020, 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 2021.

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 84)
Allotment of shares for cash pursuant to employee share schemes	Note 22 to the consolidated financial statements on employee share schemes (page 169)

Annual General Meeting

The notice of the Annual General Meeting, to be held on 13 May 2021, 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
 3 March 2021

Directors' responsibilities statement

Advisors

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 3 March 2021.

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.

Hiscox Ltd

Secretary
Marc Wetherhill

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Pembroke HM 08
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Registered number
38877

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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

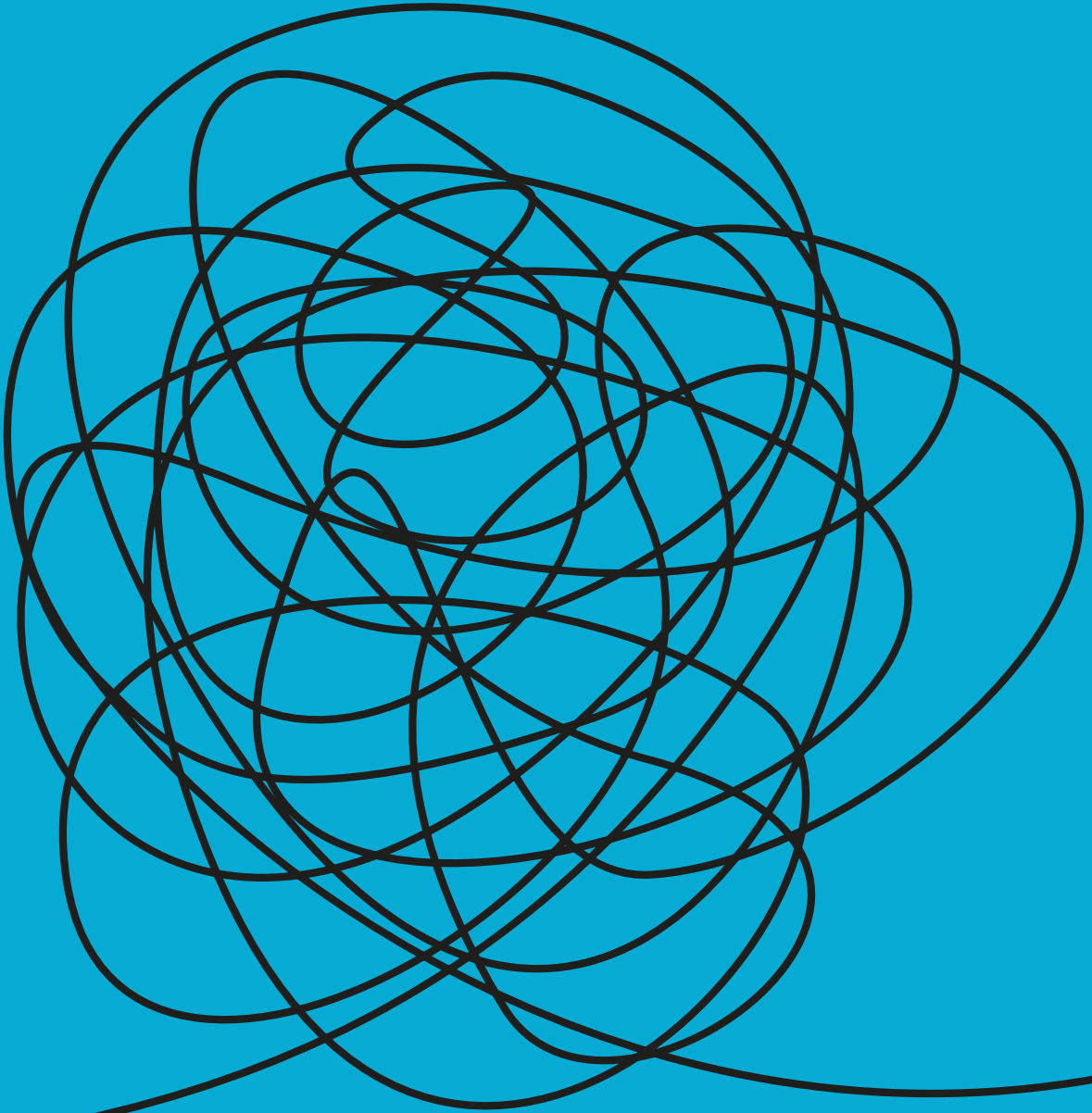
HSBC Bank Bermuda Limited
37 Front Street
Hamilton HM 11
Bermuda

Stockbrokers

UBS Limited
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London EC2M 2PP
United Kingdom

Registrars

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



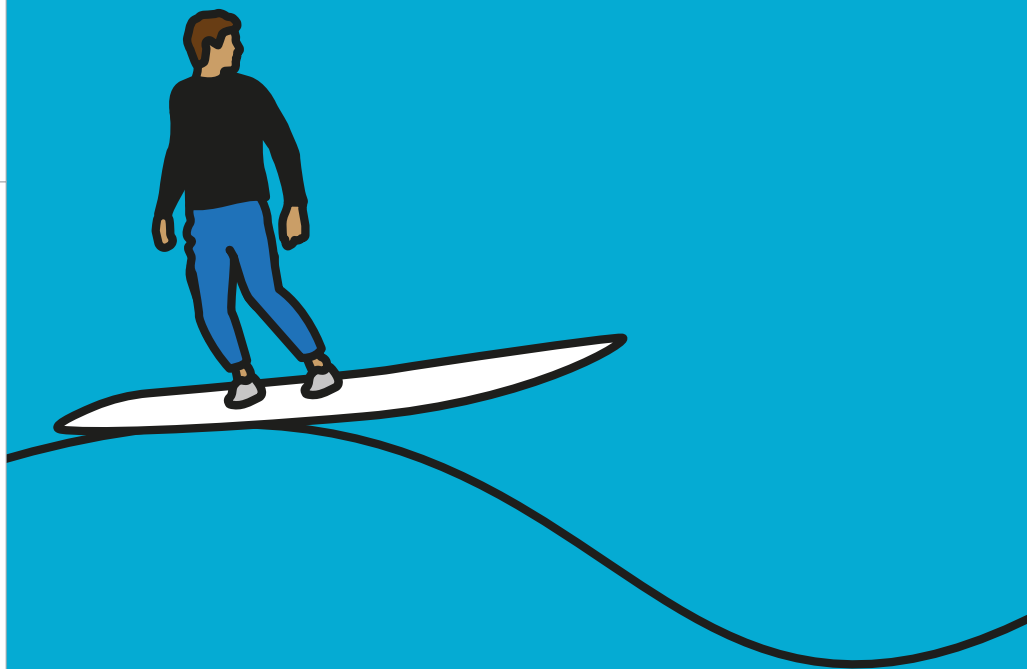
By adopting a commercial mindset, we will manage costs and control tedious bureaucracy.



Owning our adoption of big-ticket digital trading

Lockdown and social distancing measures meant that many businesses had to adapt to a digital trading environment for which they were unprepared. In the London Market, where efforts to modernise were already under way, the Lloyd's Placing Platform Limited (PPL) became the dominant way in which to write big-ticket business in London. Hiscox has long been a strong supporter of the push towards electronic trading and was an early adopter of PPL as a multi-year, market-wide initiative chaired by our Group CEO.

PPL enables brokers and insurers to quote, negotiate, bind and endorse business digitally, and since its inception Hiscox has consistently exceeded the phased targets towards total market adoption. When the pandemic hit, our London Market operations team developed new training to upskill and empower our underwriters, and the number of risks bound online went from 70% in the first quarter of 2020 to over 90% in the third quarter. Taking ownership of the need to transact digitally with minimal disruption to brokers and clients supports our aspiration of being digital where possible, but with a human touch where it matters most.



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 2020, 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

The Group's consolidated financial statements comprise:

- the consolidated income statement for the year ended 31 December 2020;
- the consolidated statement of comprehensive income for the year ended 31 December 2020;
- the consolidated balance sheet as at 31 December 2020;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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

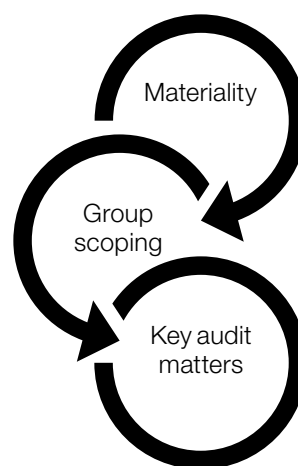
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) and the ethical requirements of the Chartered Professional Accountants of Bermuda Rules of Professional Conduct (CPA Bermuda Rules) that

Our audit approach

Overview



— Overall group materiality: \$30.5 million, which represents 0.75% of the gross earned premium for the year ended 31 December 2020.

— We performed full scope audit procedures over five 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.

— The impact of Covid-19 on the Group.
 — Valuation of gross incurred but not reported (IBNR) loss reserves and the associated reinsurers' share of IBNR loss reserves.
 — Assessment of the carrying value of certain finite lived intangible assets.

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.

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.

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 its operations primarily consist of the legal entity operations in the United Kingdom, Europe, the United States and Bermuda. A full scope audit was performed for five components located in the United Kingdom, the United States and Bermuda. Financial statement line item audit procedures were also performed over components in the United Kingdom, United States and Bermuda. Taken together this work provided over 85% coverage of the Group's gross earned premium and over 80% of the Group's total assets.

The five 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.; and
- v) 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 performed financial statement line item audit procedures over these 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 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 during the audit process. The engagement leader and senior members of the Group engagement team reviewed in detail all reports with regards to the audit approach and findings submitted by the component auditors. This together with additional procedures performed at the Group level, as described above, gave us the evidence we needed for our opinion on the consolidated financial statements as a whole.

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 below. 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 \$1.5 million, as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Overall Group materiality	\$30.5 million
How we determined it	0.75% of gross earned premium for the year ended 31 December 2020.
Rationale for the materiality benchmark applied	<p>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.</p> <p>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.</p>

Key audit matters

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

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

'The impact of Covid-19 on the Group' and 'assessment of the carrying value of certain finite lived intangible assets' are new key audit matters this year. The prior year key audit matter in respect of uncertain tax positions was included in 'the impact of Covid-19 on the Group'. Otherwise, the key audit matters that follow are consistent with last year.

Key audit matter

1. The impact of Covid-19 on the Group

Refer to note 2 and 3.5 to the consolidated financial statements for related disclosures.

The impact of Covid-19 on the Group has been significant and wide ranging. In particular, the Group has:

- experienced an increase in claims activity resulting in the establishment of substantial Covid-19-related loss reserves (see key audit matter 2 on page 118);
- responded to operational challenges brought about by remote working and travel restrictions (see uncertain tax positions below);
- assessed the potential impact of Covid-19 on other areas of the consolidated financial statements such as the carrying value of certain finite lived intangible assets (see key audit matter 3 on page 119); and
- assessed the impact of Covid-19 on the Group's ability to continue as a going concern (see the impact of Covid-19 on going concern below).

Uncertain tax positions

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.

The on-going pandemic has increased residency and permanent establishment (PE) risk, given the difficulties in relation to travel. The potential impact of a successful challenge on the Group's uncertain tax positions by either HMRC or the IRS is significant and as a consequence this was a specific focus area of our audit.

The impact of Covid-19 on going concern

The Group prepares its consolidated financial statements using IFRS as adopted by the EU on a going concern basis of accounting. Management's assessment of going concern is dependent on significant judgement and can be influenced by management bias. Given the impacts of Covid-19 as described above our audit focused on management's assessment of going concern.

How our audit addressed the key audit matter

In performing our detailed audit work over uncertain tax positions (specifically in relation to the Group's residency and PE risk) and management's going concern assessment, in light of Covid-19, we performed the following work.

Uncertain tax positions

With the assistance of our PwC tax dispute specialists, we obtained, critically assessed and challenged management's residency and permanent establishment documentation and supporting evidence, paying particular attention to the impact, and management of, Covid-19 travel disruption.

The results of our procedures indicated that management's position in relation to residency and PE risk was supported by the evidence we obtained.

The impact of Covid-19 on going concern:

We obtained management's going concern assessment which considered the Group's capital, solvency and liquidity positions. We validated the analysis to supporting documentation and assessed management's scenarios whereby they considered plausible downside sensitivities. We performed further sensitivity analysis on management's assessment and assessed the impact on the Group's capital, solvency, liquidity and debt covenants.

We also assessed the disclosures made by management in respect of going concern.

The results of our procedures indicated that management's application of the going concern basis of accounting and the associated disclosures within the consolidated financial statements were supported by the evidence we obtained.

Key audit matter

2. Valuation of gross incurred but not reported (IBNR) loss reserves and the associated reinsurers' share of IBNR loss reserves

Refer to note 2.13, 2.21 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 2020 amount to \$4,572 billion and \$2,228 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; and
- the risk that key assumptions in respect of natural catastrophes and other large claims losses, including those reserving estimates associated with classes of business exposed to claims and potential claims arising from Covid-19, are inappropriate. There is significant judgement involved in these loss estimates, particularly as they are often based on limited data.

How our audit addressed the key audit matter

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:

- reviewing and testing the reconciliation of data from the underlying policy administration systems to the data used in the actuarial projections;
- testing the completeness and accuracy of premiums and claims data used in the actuarial projections;
- testing the completeness and accuracy of policy and claims data, where applicable, used to establish Covid-19, natural catastrophe and other large loss reserves; and
- 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 reinsurer's 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 2020 and performing roll-forward testing to 31 December 2020;
- testing, for certain other classes of business (including those impacted by Covid-19, natural catastrophes and other large claims), the methodology and assumptions used by management to derive the gross IBNR loss reserves, and the associated reinsurer's share of IBNR loss reserves;
- performing analytical review procedures over the remaining classes of business to evaluate gross IBNR loss reserves and the associated reinsurer's share of IBNR loss reserves; and
- evaluating the appropriateness of the booked gross IBNR loss reserve margin, and the associated reinsurer's share, taking into account estimation uncertainty inherent in the underlying insurance business, including testing the sensitivity of loss reserves.

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

3. Assessment of the carrying value of certain finite lived intangible assets

Refer to note 2.5, 2.9, and 12 to the consolidated financial statements for disclosures of related accounting policies and balances.

The carrying value of finite lived intangible assets (software development costs) amounts to \$241.9 million as at 31 December 2020. Management considered whether or not there was an indicator of impairment in respect of these assets.

Where management undertook an impairment analysis, they performed recoverable amount (i.e. value-in-use) calculations using future cashflow forecasts. These calculations include a number of assumptions and associated judgements. The recoverable amount of the associated finite lived intangible assets was compared to the book value in determining whether or not an impairment was required.

How our audit addressed the key audit matter

Our procedures in relation to management's assessment of the carrying value of certain finite lived intangible assets (software development costs) as at 31 December 2020 included the following:

- performing an independent assessment of impairment indicators, challenging management's assessment accordingly;
- testing the calculation of the recoverable amount for certain finite lived intangible assets for which an impairment indicator was present. This comprised:
 - obtaining the supporting cashflow forecasts, agreeing them to Board approvals, assessing management's track record of forecast accuracy and considering the impact of the current economic environment;
 - performing sensitivity analysis over key assumptions and considering the likelihood of those outcomes;
 - evaluating the discount rate applied, with the assistance of our PwC valuation specialists;
 - re-calculating the mathematical accuracy of management's calculations; and
 - comparing the final recoverable amount to the associated carrying value of that asset.

The results of our procedures indicated that the carrying value of certain finite lived intangible assets (software development costs) were supported by the evidence we obtained.

Other information

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

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 International Financial Reporting Standards 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; and obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on other legal and regulatory requirements 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 108. 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 a report on Directors' remuneration in accordance with the provisions of the UK Companies Act 2006. The Directors have requested that we audit the part of the report on Directors' remuneration specified by the UK Companies Act 2006 to be audited as if the Company were a UK registered company.

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

Corporate governance statement

Under the United Kingdom's Listing Rules we are required to review the part of the corporate governance statement on pages 63 to 67 relating to the provisions of the UK Corporate Governance Code (the Code) specified for auditor review 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 additional responsibilities with respect to the corporate governance statement and the statements on going concern and the longer-term viability of the Company as other information are described in the 'other information' section of this report.

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
Bermuda
3 March 2021

Consolidated income statement

For the year ended 31 December 2020

	Note	2020 Total \$m	2019 Total \$m
Income			
Gross premiums written	4	4,033.1	4,030.7
Outward reinsurance premiums	4, 23.2	(1,282.7)	(1,351.9)
Net premiums written		2,750.4	2,678.8
Expenses			
Gross premiums earned		4,071.2	3,931.9
Premiums ceded to reinsurers		(1,319.0)	(1,296.3)
Net premiums earned	4, 23.2	2,752.2	2,635.6
Investment result	4, 7	197.5	223.0
Other income	4, 9	50.2	53.1
Total income		2,999.9	2,911.7
Claims and claim adjustment expenses	23.2	(2,966.5)	(3,206.7)
Reinsurance recoveries	23.2	1,043.8	1,630.6
Claims and claim adjustment expenses, net of reinsurance	4, 23.2	(1,922.7)	(1,576.1)
Expenses for the acquisition of insurance contracts	15	(1,002.9)	(944.9)
Reinsurance commission income	15	289.0	283.9
Operational expenses	4, 9	(573.0)	(593.5)
Net foreign exchange (loss)/gain		(14.5)	8.5
Total expenses		(3,224.1)	(2,822.1)
Results of operating activities		(224.2)	89.6
Finance costs	4, 10	(44.0)	(36.6)
Share of (loss)/profit of associates after tax	4, 14	(0.3)	0.1
(Loss)/profit before tax		(268.5)	53.1
Tax expense	25	(25.2)	(4.2)
(Loss)/profit for the year (all attributable to owners of the Company)		(293.7)	48.9
(Loss)/earnings per share on (loss)/profit attributable to owners of the Company			
Basic	28	(91.6)c	17.2c
Diluted	28	(90.6)c	16.9c

Consolidated statement of comprehensive income

For the year ended 31 December 2020

	Note	2020 Total \$m	2019 Total \$m
(Loss)/profit for the year		(293.7)	48.9
Other comprehensive income			
Items that will not be reclassified to the income statement:			
Remeasurements of the net defined benefit obligation	27	(38.0)	(16.5)
Income tax effect		8.8	3.4
		(29.2)	(13.1)
Items that may be reclassified subsequently to the income statement:			
Exchange gains/(losses) on translating foreign operations		55.5	(1.0)
		55.5	(1.0)
Other comprehensive income net of tax		26.3	(14.1)
Total comprehensive income for the year (all attributable to owners of the Company)		(267.4)	34.8

The notes on pages 126 to 186 are an integral part of these consolidated financial statements.

Consolidated balance sheet

At 31 December 2020

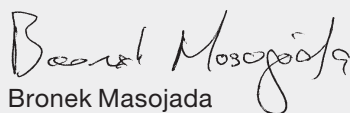
	Note	2020 \$m	2019 \$m
Assets			
Goodwill and intangible assets	12	298.9	278.0
Property, plant and equipment	13	109.4	128.4
Investments in associates	14	4.9	8.6
Deferred tax	26	70.7	76.9
Deferred acquisition costs	15	439.2	456.1
Financial assets carried at fair value	17	6,116.8	5,539.0
Reinsurance assets	16, 23	3,644.6	3,386.9
Loans and receivables including insurance receivables	18	1,591.2	1,556.3
Current tax asset		3.3	4.7
Cash and cash equivalents	21	1,577.2	1,115.9
Total assets		13,856.2	12,550.8
Equity and liabilities			
Shareholders' equity			
Share capital	22	38.7	34.1
Share premium	22	516.5	70.5
Contributed surplus	22	184.0	184.0
Currency translation reserve		(270.8)	(326.3)
Retained earnings		1,884.4	2,226.3
Equity attributable to owners of the Company		2,352.8	2,188.6
Non-controlling interest		1.1	1.1
Total equity		2,353.9	2,189.7
Employee retirement benefit obligations	27	73.5	55.1
Deferred tax	26	2.7	0.4
Insurance liabilities	23	9,113.4	8,094.5
Financial liabilities	17	946.7	728.8
Current tax		30.4	62.0
Trade and other payables	24	1,335.6	1,420.3
Total liabilities		11,502.3	10,361.1
Total equity and liabilities		13,856.2	12,550.8

The notes on pages 126 to 186 are an integral part of these consolidated financial statements.

The consolidated financial statements were approved by the Board of Directors on 3 March 2021 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
Balance at 1 January 2019		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
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
Loss for the year (all attributable to owners of the Company)		–	–	–	–	(293.7)	(293.7)	–	(293.7)
Other comprehensive income net of tax (all attributable to owners of the Company)		–	–	–	55.5	(29.2)	26.3	–	26.3
Employee share options:									
Equity settled share-based payments		–	–	–	–	10.3	10.3	–	10.3
Deferred and current tax on employee share options		–	–	–	–	(5.4)	(5.4)	–	(5.4)
Net movements of treasury shares held by Trust		–	–	–	–	(23.9)	(23.9)	–	(23.9)
Shares issued in the period	22, 29	4.6	446.0	–	–	–	450.6	–	450.6
Balance at 31 December 2020		38.7	516.5	184.0	(270.8)	1,884.4	2,352.8	1.1	2,353.9

The notes on pages 126 to 186 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows

For the year ended 31 December 2020

	Note	2020 \$m	2019 \$m
(Loss)/profit before tax		(268.5)	53.1
Adjustments for:			
Net foreign exchange loss/(gain)		14.5	(8.5)
Interest and equity dividend income		(107.4)	(123.7)
Interest expense		44.0	36.6
Net fair value (gains) on financial assets		(51.2)	(70.8)
Depreciation, amortisation and impairment	9, 12, 13	56.8	44.6
Charges in respect of share-based payments	9, 22	10.3	3.6
Changes in operational assets and liabilities:			
Insurance and reinsurance contracts		633.6	414.3
Financial assets carried at fair value		(475.4)	(405.0)
Financial liabilities carried at fair value		(0.1)	(0.5)
Financial liabilities carried at amortised cost		0.8	0.8
Other assets and liabilities		33.3	14.3
Cash paid to the pension fund		(30.4)	(3.6)
Interest received		102.5	130.8
Equity dividends received		1.6	1.1
Interest paid		(42.4)	(36.4)
Current tax paid		(39.1)	(11.2)
Net cash (used in)/flows from operating activities		(117.1)	39.5
Purchase of property, plant and equipment		(9.0)	(6.4)
Proceeds from the sale of property, plant and equipment		8.6	–
Purchase of intangible assets		(62.5)	(90.9)
Proceeds from the sale of intangible assets		10.2	–
Net cash used in investing activities		(52.7)	(97.3)
Proceeds from the issue of ordinary shares	22	450.6	3.6
Shares repurchased	22	(23.9)	–
Distributions made to owners of the Company	22, 29	–	(111.6)
Proceeds from drawdown of short-term borrowings		470.0	–
Repayment of short term borrowings		(289.4)	–
Principal elements of lease payments		(14.5)	(15.5)
Net cash flows from/(used in) financing activities		592.8	(123.5)
Net increase/(decrease) in cash and cash equivalents		423.0	(181.3)
Cash and cash equivalents at 1 January		1,115.9	1,288.8
Net increase/(decrease) in cash and cash equivalents		423.0	(181.3)
Effect of exchange rate fluctuations on cash and cash equivalents		38.3	8.4
Cash and cash equivalents at 31 December		1,577.2	1,115.9

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 \$172 million (2019: \$167 million) not available for immediate use by the Group outside of the Lloyd's syndicate within which they are held. Additionally, \$9 million (2019: \$41 million) is pledged cash held against Funds at Lloyd's, and \$0.5 million (2019: \$0.3 million) held within trust funds against reinsurance arrangements.

The notes on pages 126 to 186 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 3,000 staff.

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

2 Basis of preparation

The 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.

The consolidated financial statements have been prepared on a going concern basis. In adopting the going concern basis, the Board has reviewed the Group's current and forecast solvency and liquidity positions for the next 12 months and beyond. As part of the consideration of the appropriateness of adopting the going concern basis, the Directors use scenario analysis to assess the robustness of the Group's solvency and liquidity positions. To make the assessment, the Group constructed a combined scenario which included applying material sensitivities to (re)insurance claims relating to Covid-19, modelling a significant catastrophe loss and a default in the Group's reinsurance programme. An aggregated scenario such as this, and the sequence of events it involves, is considered to be remote and there are mitigating recovery actions that can be taken

to restore the capital position to the Group's target range.

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

After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence over a period of at least 12 months from the date of this report. For this reason, the Group continues to adopt the going concern basis in preparing the consolidated financial statements.

The impact of Covid-19 has been factored into a number of the significant financial reporting judgements and estimates discussed in Note 2.21, and has been reflected in the relevant sections of the consolidated financial statements, notably impairment testing on intangible assets, fair value measurement of investments, insurance liabilities and deferred tax assets. The specific consideration relating to the current market conditions was also taken into account in the various sections of the risk management note.

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

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

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

The financial statements were approved for issue by the Board of Directors on 3 March 2021.

2 Basis of preparation continued

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 2.21.

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 2020. They have been applied in preparing these consolidated financial statements.

The amendments to published standards include:

- Amendments to IFRS 3 *Definition of a Business*
The amendment to IFRS 3 clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. Furthermore, it clarified that a business can exist without including all of the inputs and processes needed to create outputs. These amendments had no impact on the consolidated financial statements, but may impact future periods should the Group enter into any business combinations.
- Amendments to IFRS 7, IFRS 9 and IAS 39 *Interest Rate Benchmark Reform*
The amendments to IFRS 9 and IAS 39 *Financial Instruments: Recognition and Measurement* provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument. These amendments had no impact on the consolidated financial statements of the Group as it does not have any interest rate hedge relationships.
- Amendments to IAS 1 and IAS 8 *Definition of Material*
The amendments provide a new definition of material that states 'information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity'. The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the consolidated financial statements of, nor is there expected to be any future impact to, the Group.

— Conceptual Framework for Financial Reporting issued on 29 March 2018

The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the IASB in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards. The revised Conceptual Framework includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. These amendments had no impact on the consolidated financial statements of the Group.

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 2020 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

2 Basis of preparation

2.1 Significant accounting policies

New accounting standards, interpretations and amendments to published standards continued

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 the 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 significantly change the accounting for 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 (PAA), 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. Any expected losses arising from loss-making contracts are to be accounted for in the income statement when the entity determines that losses are expected. The presentation of the income statement will also change, with premium and claims figures being replaced with insurance contract revenue, insurance service expense and insurance finance income and expense. The Group is evaluating the impact of adopting IFRS 17 on the financial statements which includes:

- developing the Group's accounting policy under IFRS 17;
- performing a PAA eligibility assessment;
- preparing end-to-end system architecture and configuring an actuarial calculation engine;
- outlining an operational readiness framework including stakeholder engagement and an internal training plan.

The Group's implementation programme is progressing in line with expectations. IFRS 17 is effective on 1 January 2023 and has not yet been endorsed by the EU.

2.2 Basis of consolidation

(a) Subsidiaries

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

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired, liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition

date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

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

(b) Associates

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

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

(c) Transactions eliminated on consolidation

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

2.3 Foreign currency translation

(a) Functional currency

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

2 Basis of preparation

2.3 Foreign currency translation continued

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the retranslation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as IAS 39 effective net investment hedges or when the underlying balance is deemed to form part of the Group's net investment in a subsidiary operation and is unlikely to be settled in the foreseeable future. Non-monetary items carried at historical cost are translated on the balance sheet at the exchange rate prevailing on the original transaction date. Non-monetary items measured at fair value are translated using the exchange rate ruling when the fair value was determined.

(c) Group companies

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

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

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

2.4 Property, plant and equipment

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

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

The rates applied are as follows:

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

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

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

2.5 Intangible assets

(a) Goodwill

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

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

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

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

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

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

(b) Other intangible assets

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

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

2 Basis of preparation

2.5 Intangible assets

(b) Other intangible assets continued

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

Subsequent expenditure on other intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

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

2.6 Fair value

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

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

2.7 Financial assets and liabilities including loans and receivables

The Group classifies its financial assets as a) financial assets at fair value through profit or loss, and b) loans and receivables. Management determines the classification of its financial assets based on the purpose for which the financial assets are held at initial recognition. The decision by the Group to designate debt and fixed income 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) Borrowings

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

2.8 Cash and cash equivalents

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

2.9 Impairment of assets

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

(a) Non-financial assets

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

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

(b) Financial assets

Objective factors that are considered when determining whether a financial asset or group of financial assets may

2 Basis of preparation

2.9 Impairment of assets

(b) Financial assets continued

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.

2.10 Derivative financial instruments

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

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

2.11 Own shares

Where any Group company purchases the Parent Company's equity share capital (own shares), the consideration paid, including any directly attributable incremental costs (net of

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

2.12 Revenue

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

Other revenue is recognised when, or as, the control of the goods or services 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.

2.13 Insurance contracts

(a) Classification

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

(b) Recognition and measurement

Gross premiums written comprise premiums on business entering 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.

2 Basis of preparation

2.13 Insurance contracts continued

(c) Deferred acquisition costs (DAC)

Commissions and other direct and indirect costs that vary with and are related to securing new contracts and renewing existing contracts are capitalised as deferred acquisition costs. All other costs are recognised as expenses when incurred. DAC are amortised over the terms of the insurance contracts as the related premium is earned.

(d) Liability adequacy tests

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

(e) Outwards reinsurance contracts held

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

The benefits to which the Group is entitled under outwards reinsurance contracts are recognised as 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.

(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.

2.14 Taxation

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

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not recognised. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the Group controls the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

2.15 Employee benefits

(a) Pension obligations

The Group operated both defined contribution and defined benefit pension schemes during the year under review.

2 Basis of preparation

2.15 Employee benefits

(a) Pension obligations continued

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

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

The amount recognised on the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date, less the fair value of plan assets. 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 the income statement.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, 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.

(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.

2.16 Net investment hedge accounting

In order to qualify for hedge accounting, the Group is required to document in advance the relationship between the item being hedged and the hedging instrument. The Group is also required to document and demonstrate an assessment of the relationship between the hedged item and the hedging instrument, which shows that the hedge will be highly effective on an ongoing basis. This effectiveness testing is reperformed at each period end to ensure that the hedge remains highly

2 Basis of preparation

2.16 Net investment hedge accounting continued

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.

2.17 Finance costs

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

2.18 Provisions

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

2.19 Leases

(a) Hiscox as lessee

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

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (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' on the balance sheet.

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.

2.20 Dividend distribution

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

2.21 Use of significant judgements, estimates and assumptions

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

The Audit Committee reviews the reasonableness of critical judgements, estimates and assumptions applied and the appropriateness of significant accounting policies. The significant issues considered by the Committee in the year are included within the Audit Committee report on pages 71 to 73.

Significant 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.

- Going concern: assessment of whether the Group has adequate resources to continue in operational existence over a period of at least 12 months from the date of the consolidated financial statements. See note 2 'basis of preparation' for further details;
- 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.

2 Basis of preparation

2.21 Use of significant judgements, estimates and assumptions continued

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.

In 2020, Covid-19 has had a significant impact on market conditions and the business. Estimates and their underlying assumptions continue to be 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. Where an estimate has been made in response to Covid-19, additional disclosure has been provided in the relevant note to provide context to the figures presented.

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 on the balance sheet. The total gross estimate as at 31 December 2020 is \$4,571.9 million (2019: \$4,017.0 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 2020 is \$2,227.7 million (2019: \$2,106.4 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. Between the reporting and final settlement of a claim circumstances may change, which may result in changes to established liability. The overall reserving risk is discussed in more detail in note 3.2 and the procedures used in estimating the cost of settling insured losses at the balance sheet date including losses incurred but not reported are detailed in note 23.

The Group tests the adequacy of its unearned premium liability by comparing current estimates of future claims and claims handling expenses attributable to the unexpired periods of policies at the balance sheet date which to the unearned premium liability net of acquisition costs. As set out in note 2.13(d), any deficiency is recognised in the income statement. The related deferred acquisition costs are first written down and any additional liability required is then recognised as an unexpired risk reserve (URR). In 2020, the Group has recognised a loss due to this test and established an URR. If this estimation were to prove inadequate, the unexpired risk reserve could be understated. The total estimate for URR net of reinsurers' shares as at 31 December 2020 was \$22.9 million (2019: nil). Another key estimate contained within the Group's consolidated financial statements is an estimate of gross premium written during the year. For certain contracts, premium is initially recognised based on estimates of ultimate premium. This occurs where pricing is based on variables, which are not

known with certainty at the point of binding the policy. In determining the estimated premium, the Group uses information provided by brokers and coverholders, past underwriting experience, the contractual terms of the policy and prevailing market conditions. Subsequently, adjustments to those estimates arise as updated information relating to those pricing variables becomes available, for example due to declarations obtained on binding authority contracts, reinstatement premium on reinsurance contracts or other policy amendments. Such adjustments are recorded in the period in which they are determined and impact gross written premiums in the consolidated income statements and premiums receivable from insureds and cedants recorded on the consolidated balance sheet.

The Group carries its financial investments at fair value through profit or loss, with fair values determined using published price quotations in the most active financial markets 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 3.3 discusses the reliability of the Group's fair values.

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

The Group operates in a 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. See note 26 for further details of adjustments made to deferred tax during the year.

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

2 Basis of preparation continued

2.22 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 by other companies.

3 Management of risk

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

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

The Group continues to monitor and respond to Covid-19, in particular the impact related to our operations, insurance claims, reinsurance assets and investments on the Group's capital and liquidity positions.

- The Group responded quickly to the lockdowns in each location and transitioned to a remote working structure within a few days. The Group's IT infrastructure supported over 95% of its 3,000 employees around the world in working from home with no significant impact on trading capabilities or business processes.
- The estimate of insurance claims related to Covid-19 is \$475 million net of reinsurance which has been reflected in the consolidated financial statements. This loss estimate along with other insurance claims 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.

- The Group utilises a broad, high-quality panel of reinsurers across multiple treaties and actively monitors its credit risk exposure and concentration risk. To date, the Group has not experienced any defaults, as detailed in note 3.3 (d).
- The Group's investments portfolio remains heavily weighted toward government issued and investment grade corporate debts with minimum exposure to unlisted investments, as detailed in note 3.3 (d).

During the year, the Group took an action to increase its liquidity position in short-term deposits and similar cash and cash equivalents.

The capital raised from the share issuance in 2020, while predominantly held to better position the business for future growth opportunities, also provided additional strength to the capital and liquidity positions in light of the continued uncertainty arising from Covid-19.

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

3.1 Operational risk

Covid-19 has required the Group's ongoing focus on safeguarding the well-being of its employees, serving its clients, and preserving operational continuity. At one point, the Group had over 95% of its more than 3,000 employees around the world working from home, and it continues to support them through flexible working and the provision of mental health and well-being services. This has also meant that internal processes, capability of people and IT systems have been put to the test. The Group has adapted to the changes in the operational environment and business processes have continued to be carried out effectively and efficiently.

The Group demonstrated resilience in 2020, underscoring the benefits of its business model, disciplined risk management and ongoing investment in technology and infrastructure.

Measures the Group has implemented to adapt to Covid-19 have proven largely effective in addressing the relevant challenges and operational risks and some of these measures represent an acceleration of longer-term plans.

3.2 Insurance risk

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

i) Underwriting risk

The Board sets the Group's underwriting strategy and risk appetite seeking to exploit identified opportunities in 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

3 Management of risk

3.2 Insurance risk

i) Underwriting risk continued

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.

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 claims 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 38, 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.

Estimated concentration of gross and net insurance liabilities on the balance sheet as at 31 December 2020

		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	2,592.7	286.7	1,308.1	2,650.4	1,576.5	699.0	9,113.4
	Net	812.8	138.1	671.3	2,268.6	1,097.0	481.0	5,468.8

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

*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

3.2 Insurance risk

i) Underwriting risk continued

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

The specific insurance risks accepted by the Group fall broadly into the following main categories: reinsurance inwards, marine and major asset property, other property risks, casualty professional indemnity and casualty other insurance risks. These specific categories are defined for risk review purposes only, as each contains risks specific to the nature of the cover provided. They are not exclusively aligned to any specific reportable segment in the Group's operational structure or 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.

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. Climate change may give rise to more frequent and severe extreme weather events (for example windstorms and river flooding) and it may be expected that their frequency will increase over time.

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

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

Other property risks

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

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

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

Casualty insurance risks

The casualty underwriting strategy attempts to ensure that the underwritten risks are well diversified in terms of type and amount of potential hazard, industry and geography.

3 Management of risk

3.2 Insurance risk

i) Underwriting risk

Casualty insurance risks continued

However, the Group's exposure is more focused towards professional, general, technological and marine liability risks rather than human bodily injury risks, which are only accepted under limited circumstances. Claims typically arise from incidents such as errors and omissions attributed to the insured, professional negligence and specific losses suffered as a result of electronic or technological failure of software products and websites.

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

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

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

ii) Reserving risk

The Group's procedures for estimating the outstanding costs of settling insured losses at the balance sheet date, including claims incurred but not yet reported, are detailed in note 23. The Group's provision estimates are subject to rigorous review by senior management from all areas of the business. The managed Syndicates and US business receive a review of their estimates from independent actuaries. The final provision is approved by the relevant boards on the recommendation of dedicated reserving committees.

Similar to the underwriting risk detailed above, the Group's reserve risks are well diversified. Short-tailed claims are normally notified and settled within 12 to 24 months of the insured event occurring. Those claims taking the longest 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.

In addressing specific aspects of the impact of Covid-19 to Hiscox in relation to insurance risk, the Group focuses on:

- existing exposures, reinsurance coverage and, from a forward-looking perspective, the underwriting functions develop a projection of exposures taking account changes to coverage including exclusions and incorporating rate changes; the assessment is undertaken on a portfolio-by-portfolio basis across the Group's geographic footprint;
- handling claims arising from Covid-19 in a fair, consistent and efficient way, and actively settling claims for event cancellation and abandonment, media and entertainment and other segments including travel.

3.3 Financial risk

Overview

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

The key financial risk for the Group is that the proceeds from its financial assets and investment result generated thereon are not sufficient to fund the 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.

3 Management of risk

3.3 Financial risk

(a) Reliability of fair values continued

With the exception of any unquoted investments shown in note 20, all of the financial investments held by the Group are available to trade in markets and the Group therefore seeks to determine fair value by reference to published prices or as derived by pricing vendors using observable quotations in the most active financial markets in which the assets trade. The fair value of financial assets is measured primarily with reference to their closing market prices at the balance sheet date. The ability to obtain quoted market prices may be reduced in periods of diminished liquidity. In addition, those quoted prices that may be available may represent an unrealistic proportion of market holdings or individual trade sizes that could not be readily available to the Group. In such instances fair values may be determined or partially supplemented using other observable market inputs such as prices provided by market makers such as dealers and brokers, and prices achieved in the most recent regular transaction of identical or closely-related instruments occurring before the balance sheet date but updated for relevant perceived changes in market conditions.

At 31 December 2020, the Group held 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.

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 and investment fund assets in the Group's balance sheet at 31 December 2020 was \$578 million (2019: \$486 million). A 10% downward correction in equity and investment fund prices at 31 December 2020 would have been expected to reduce Group equity and profit after tax by approximately \$49 million (2019: \$44 million).

These may be analysed as follows:

Nature of equity and investment fund holdings

	2020 % weighting	2019 % weighting
Directly held equity securities	8	4
Units held in funds – traditional long only	58	52
Units held in funds – long and short and other special strategies	34	44
Geographic focus		
Specific UK mandates	37	29
Global mandates	63	71

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 allocations to diversifying and less volatile strategies, such as 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.

(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 2020 was \$5,475 million (2019: \$4,990 million). These may be analysed below as follows:

Nature of debt and fixed income holdings

	2020 % weighting	2019 % weighting
Government issued bonds and instruments	20	28
Agency and government supported debt	6	6
Asset-backed securities	–	1
Mortgage-backed instruments – agency	6	5
Mortgage-backed instruments – non-agency	–	1
Corporate bonds	65	57
Lloyd's deposits and bond funds	3	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

3 Management of risk

3.3 Financial risk

(c) Interest rate risk continued

or decrease by approximately \$88 million (2019: \$76 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 in note 17.

At 31 December 2020, the Group had borrowings of £691 million (2019: £550 million). The borrowings comprised of £141 million drawn on the Group's borrowing facility (2019: \$nil) and £550 million (2019: £550 million) of long-term debt. The £550 million includes 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. In addition, the Group has additional borrowings of £50 million and \$125 million, which were drawn down in 2020. 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 actual or perceived financial strength and be unable to pay amounts in full when due, or that for any other reason they renege on a contract or alter the terms of an agreement. The concentrations of credit risk exposures held by insurers may be expected to be greater than those associated with other industries, due to the specific nature of reinsurance markets and the extent of investments held in financial markets. In both markets, the Group interacts with a number of counterparties who are engaged in similar activities with similar customer profiles, and often in the same geographical areas and industry sectors. Consequently, as many of these counterparties are themselves exposed to similar economic characteristics, one single localised or macroeconomic change could severely disrupt the ability of a significant number of counterparties to meet the Group's agreed contractual terms and obligations.

Covid-19 has caused economic disruption around the world with many businesses and individuals forced to alter, reduce or cease business activity in light of government lockdowns. As a result, the risk that counterparties fail to meet their financial obligations as they fall due, for whatever reason, has increased.

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

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

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.

3 Management of risk

3.3 Financial risk

(d) Credit risk continued

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

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

As at 31 December 2020	Note	AAA \$m	AA \$m	A \$m	BBB \$m	Other/ non-rated \$m	Total \$m
Debt and fixed income securities	17	411.3	1,948.2	1,586.7	1,426.8	101.5	5,474.5
Reinsurance assets	16	1,079.7	946.7	1,396.0	188.7	33.5	3,644.6
Cash and cash equivalents	21	134.0	98.9	1,339.6	3.5	1.2	1,577.2
Total		1,625.0	2,993.8	4,322.3	1,619.0	136.2	10,696.3

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
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

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 2020 of \$920 million is to the US Treasury (2019: \$1,279 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 2020 is to Kiskadee. The fully collateralised recoverable from Kiskadee represents 19% (2019: 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 2020 and 2019.

(e) Liquidity risk

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

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

3 Management of risk

3.3 Financial risk

(e) Liquidity risk continued

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	2020 total \$m	2019 total \$m
Debt and fixed income securities	1,560.0	1,435.2	2,050.8	428.5	5,474.5	4,989.9
Cash and cash equivalents	1,577.2	–	–	–	1,577.2	1,115.9
Total	3,137.2	1,435.2	2,050.8	428.5	7,051.7	6,105.8

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

There has been an increase in claims net of reinsurance recoveries in 2020 which are mainly attributed to Covid-19 as described in note 23. This has increased the liquidity requirement to pay for these claims. The Group has actively monitored and taken actions to further strengthen the liquidity position. In April 2020, the Group announced the decision to withdraw the 2019 final dividend and that the Group would not propose an interim dividend payment, or conduct any further share buybacks in 2020. In May 2020, the Group successfully raised £375 million (\$459.5 million) through a non-pre-emptive placing of new ordinary shares. The proceeds of the placing will be used to respond to growth opportunities and rate improvement, particularly in big-ticket lines, and to further strengthen our capital buffers.

During the year, the Group has drawn down \$193 million cash from its revolving credit facility in order to maximise access to liquidity during a period of uncertainty and significant volatility in financial markets.

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.

Following the certainty provided by the Supreme Court Judgment in January 2021, the Group is aiming to settle Covid-19 and business interruption related claims as quickly as possible. This may mean that there is a delay between claims settlement and recovery under our reinsurance arrangements. The Group has forecast a range of scenarios and has plans in place to navigate any liquidity timing differences.

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

	2020 years	2019 years
US Dollar	3.04	3.30
Sterling	2.82	3.26
Euro	2.71	2.26
Canadian Dollar	2.02	1.82

3 Management of risk

3.3 Financial risk

(e) Liquidity risk continued

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

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

2020	Within one year \$m	Between one and two years \$m	Between two and five years \$m	Over five years \$m	2020 total \$m
Reinsurance inwards	1,168.2	561.4	507.5	154.1	2,391.2
Property – marine and major assets	78.3	55.8	46.8	14.8	195.7
Property – other assets	444.0	364.0	151.8	52.6	1,012.4
Casualty – professional indemnity	730.2	490.0	519.2	137.1	1,876.5
Casualty – other risks	650.7	338.7	278.5	74.3	1,342.2
Other*	265.2	95.3	87.4	25.5	473.4
Total	3,336.6	1,905.2	1,591.2	458.4	7,291.4

2019	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

*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.

3 Management of risk

3.3 Financial risk

(f) Currency risk continued

Structural currency risk

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

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

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

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

As at 31 December 2020	US Dollar \$m	Sterling \$m	Euro \$m	Other \$m	2020 \$m
Goodwill and intangible assets	141.1	146.0	7.7	4.1	298.9
Property, plant and equipment	35.3	49.1	22.4	2.6	109.4
Investments in associates	—	4.9	—	—	4.9
Deferred income tax	26.4	37.1	7.2	—	70.7
Deferred acquisition costs	240.0	116.3	63.5	19.4	439.2
Financial assets carried at fair value	4,159.3	1,221.9	607.0	128.6	6,116.8
Reinsurance assets	2,525.4	746.7	221.2	151.3	3,644.6
Loans and receivables including insurance receivables	938.6	533.1	99.7	84.0	1,655.4
Current tax asset	2.3	—	1.0	—	3.3
Cash and cash equivalents	754.0	493.0	197.7	132.5	1,577.2
Total assets	8,822.4	3,348.1	1,227.4	522.5	13,920.4
Employee retirement benefit obligations	—	73.5	—	—	73.5
Deferred tax	—	—	2.7	—	2.7
Insurance liabilities	6,133.5	1,771.3	907.0	301.6	9,113.4
Financial liabilities	125.0	821.3	0.4	—	946.7
Current tax	—	10.0	20.4	—	30.4
Trade and other payables	706.4	456.4	154.3	82.7	1,399.8
Total liabilities	6,964.9	3,132.5	1,084.8	384.3	11,566.5
Total equity	1,857.5	215.6	142.6	138.2	2,353.9

As at 31 December 2019	US Dollar \$m	Sterling \$m	Euro \$m	Other \$m	2019 \$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
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

3 Management of risk

3.3 Financial risk

(f) Currency risk continued

Sensitivity analysis

As at 31 December 2020, the Group used closing rates of exchange of \$1: £0.73 and \$1: €0.82 (2019: \$1:£0.76 and \$1:€0.89). 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 2020 effect on equity after tax \$m	December 2020 effect on profit before tax \$m	December 2019 effect on equity after tax \$m	December 2019 effect on profit before tax \$m
Strengthening of Sterling	83.6	8.9	64.1	28.6
Weakening of Sterling	(68.4)	(7.3)	(52.4)	(23.4)
Strengthening of Euro	27.2	(0.9)	21.2	6.3
Weakening of Euro	(22.3)	0.7	(15.3)	(5.2)

(g) Limitations of sensitivity analysis

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

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

3.4 Capital risk management

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

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

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

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

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

At 31 December 2020, the available capital under IFRS was \$2,431 million (2019: \$2,276 million), comprising net tangible asset value of \$2,055 million (2019: \$1,912 million) and subordinated debt of \$376 million (2019: \$364 million).

3 Management of risk

3.4 Capital risk management continued

The Group can source additional funding from revolving credit and Letter of Credit (LOC) facilities. Standby funding from these sources comprised \$946 million at 31 December 2020 (2019: \$800 million).

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

In order to take advantage of opportunities for profitable growth in wholesale and reinsurance markets, as a result of capital contraction and rate improvement across the market following the uncertainty caused by Covid-19, the Group raised £375 million in capital in May 2020 in the form of an equity placement. This has provided additional flexibility throughout the year to respond to growth opportunities and rate improvement, particularly in big-ticket lines.

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

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

Gearing

The Group currently utilises gearing as an additional source of funds to maximise the opportunities from strong markets and to reduce the risk profile of the business in weaker markets, particularly with respect to the more volatile business.

The Group's gearing is obtained from a number of sources, including:

- LOC and revolving credit facility – the Group's main facility maybe drawn in cash up to £450 million (under a revolving credit facility) and utilised as LOC up to \$266 million. The facility was renewed during 2020, enabling the Group to utilise the LOC as Funds at Lloyd's to support underwriting on the 2020, 2021 and 2022 years of account. The revolving credit facility is available until the end of 2022. As at 31 December 2020, \$266 million was utilised by way of LOC to support the Funds at Lloyd's requirement and \$193.4 million cash drawings outstanding to support general trading activities (2019: \$50 million and \$nil respectively);
- during the year, the Group sourced an additional \$65 million of funding in the form of a Funds at Lloyd's facility. Under this facility assets are pledged with the Corporation of Lloyd's on the Group's behalf, providing regulatory tier 1 capital. As at 31 December 2020 the facility was fully drawn;
- £275 million of fixed-to-floating rate subordinated notes that are classified as Tier 2 debt. This was raised in November 2015 and matures in 2045. The debt is rated BBB- by S&P and Fitch;
- £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 £23 million for the 2021 year of account (2020 year of account: £45 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.

3 Management of risk

3.4 Capital risk management continued

Capital modelling and regulation

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

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

The Group's regulatory capital is supervised by the Bermuda Monetary Authority (BMA). The Group had sufficient capital at all times throughout the year to meet the BMA's requirements. The BMA is part-way through phasing in capital requirements changes, which started at the 2019 year-end and will continue until the 2021 year-end. The Group expects to maintain an appropriate margin of solvency after these changes have taken effect.

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

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

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

3.5 Tax risk

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

In particular, from March 2020, government imposed Covid-19-related travel restrictions and guidance increased the risk for multinational enterprises in general, including the Group, of tax exposures arising from the unintended creation of a tax permanent establishment or corporate residence. The Group actively manages both residence and permanent establishment risk through well-established internal procedures, and continues to monitor its position carefully.

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 \$31 million and \$89 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

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. Hiscox Europe excludes the kidnap and ransom business written by Hiscox SA. Hiscox Special Risks has traditionally comprised 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, however, in late 2020 we restructured our Special Risks division, integrating its activities with Hiscox Europe, Hiscox USA and Hiscox London Market.
- **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, however these are in run-off.
- **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, as well as all foreign exchange gains and losses. 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.

In 2020, the Group has further refined how it manages and evaluates the performance of the business units. All foreign exchange gains and losses are managed centrally. Therefore the foreign gains and losses are now fully allocated to and presented in the segmental reporting within Corporate Centre. Comparative figures have been re-presented to reflect this change, along with the previously reported figures where the foreign exchange gains and losses were allocated to each segment to aid comparability. This change has no effect on the Group IFRS results or financial position.

4 Operating segments continued

(a) Profit before tax by segment

	Year to 31 December 2020					Year to 31 December 2019 (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	2,266.3	1,023.4	743.4	–	4,033.1	2,196.3	967.9	866.5	–	4,030.7
Net premiums written	1,986.8	570.9	192.7	–	2,750.4	1,957.5	504.6	216.7	–	2,678.8
Net premiums earned	1,975.5	548.6	228.1	–	2,752.2	1,895.1	527.9	212.6	–	2,635.6
Investment result	107.3	56.6	33.6	–	197.5	133.9	50.6	38.5	–	223.0
Other income	21.4	13.8	12.5	2.5	50.2	29.0	9.0	12.7	2.4	53.1
Total income	2,104.2	619.0	274.2	2.5	2,999.9	2,058.0	587.5	263.8	2.4	2,911.7
Claims and claim adjustment expenses, net of reinsurance	(1,395.6)	(294.4)	(232.7)	–	(1,922.7)	(929.7)	(356.1)	(290.3)	–	(1,576.1)
Expenses for the acquisition of insurance contracts	(539.0)	(148.4)	(26.5)	–	(713.9)	(497.0)	(147.9)	(16.1)	–	(661.0)
Operational expenses	(405.9)	(78.9)	(49.1)	(39.1)	(573.0)	(460.9)	(59.2)	(63.6)	(9.8)	(593.5)
Net foreign exchange (losses)/gains	–	–	–	(14.5)	(14.5)	–	–	–	8.5	8.5
Total expenses	(2,340.5)	(521.7)	(308.3)	(53.6)	(3,224.1)	(1,887.6)	(563.2)	(370.0)	(1.3)	(2,822.1)
Results of operating activities	(236.3)	97.3	(34.1)	(51.1)	(224.2)	170.4	24.3	(106.2)	1.1	89.6
Finance costs	(1.3)	(0.1)	(1.0)	(41.6)	(44.0)	(1.2)	(1.0)	(1.4)	(33.0)	(36.6)
Share of (loss)/profit of associates after tax	–	–	–	(0.3)	(0.3)	–	–	–	0.1	0.1
(Loss)/profit before tax	(237.6)	97.2	(35.1)	(93.0)	(268.5)	169.2	23.3	(107.6)	(31.8)	53.1

*In 2020, the Group has further refined how it manages and evaluates the performance of the different businesses segments. All foreign exchange gains and losses are therefore allocated to, and managed by, Corporate Centre. To align external reporting to management reporting, the foreign exchange gains and losses are presented in the segmental reporting within Corporate Centre. Comparative figures have been re-presented to reflect this management view, along with the previously reported figures where the foreign exchange gains and losses were allocated to each segment to aid comparability. This change has no effect on the Group IFRS results or financial position.

4 Operating segments

(a) Profit before tax by segment continued

The following charges are included within the consolidated income statement:

	Year to 31 December 2020					Year to 31 December 2019				
	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	16.4	2.6	2.7	0.1	21.8	16.6	2.5	1.0	0.6	20.7
Amortisation of intangible assets	26.4	4.2	1.0	–	31.6	16.3	4.8	1.2	0.1	22.4
Impairment of tangible assets	–	–	–	–	–	0.5	0.6	0.3	0.1	1.5
Impairment of intangible assets	0.2	–	–	–	0.2	–	–	–	–	–
Total	43.0	6.8	3.7	0.1	53.6	33.4	7.9	2.5	0.8	44.6

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 2020					Year to 31 December 2019 (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
100% ratio analysis										
Claims ratio (%)	72.2	54.1	99.0	–	70.0	48.9	66.3	132.8	–	60.4
Expense ratio (%)	47.8	39.6	32.8	–	44.5	50.4	39.3	37.1	–	46.4
Combined ratio (%)	120.0	93.7	131.8	–	114.5	99.3	105.6	169.9	–	106.8

As previously reported

Net foreign exchange gains/(losses)	–	–	–	–	–	9.2	7.1	13.8	(21.6)	8.5
Profit/(loss) before tax	–	–	–	–	–	178.4	30.4	(93.8)	(61.9)	53.1
100% ratio analysis										
Claims ratio (%)	–	–	–	–	–	48.9	66.3	132.8	–	60.4
Expense ratio (%)	–	–	–	–	–	49.8	38.1	31.1	–	45.3
Combined ratio (%)	–	–	–	–	–	98.7	104.4	163.9	–	105.7

*See note 4 on page 150 for further details.

4 Operating segments

(a) Profit before tax by segment continued

The claims ratio is calculated as claims and claim adjustment expenses, net of reinsurance, as a proportion of net premiums earned. The expense ratio is calculated as the total of expenses for the acquisition of insurance contracts, operational expenses, including profit-related pay as a proportion of net premiums earned. The combined ratio is the total of the claims and expenses ratios. All ratios are calculated using the 100% results 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 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 2020			Year to 31 December 2019		
	Hiscox Retail \$m	Hiscox London Market \$m	Hiscox Re & ILS \$m	Hiscox Retail \$m	Hiscox London Market \$m	Hiscox Re & ILS \$m
At 100% level (note 4(b))						
1% change in claims or expense ratio	20.1	7.5	2.7	19.3	7.2	2.5
At Group level						
1% change in claims or expense ratio	19.8	5.5	2.3	19.0	5.3	2.1

(b) 100% operating result by segment

	Year to 31 December 2020					Year to 31 December 2019 (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	2,303.3	1,410.5	818.5	–	4,532.3	2,237.1	1,334.3	958.8	–	4,530.2
Net premiums written	2,015.1	788.1	224.9	–	3,028.1	1,994.7	705.6	254.6	–	2,954.9
Net premiums earned	2,007.6	753.1	269.4	–	3,030.1	1,934.4	721.6	249.4	–	2,905.4
Investment result	113.8	60.1	35.6	–	209.5	128.7	58.0	45.4	–	232.1
Other income	16.6	10.3	11.3	2.4	40.6	25.6	5.1	11.7	2.4	44.8
Claims and claim adjustment expenses, net of reinsurance	(1,449.1)	(407.3)	(266.7)	–	(2,123.1)	(945.5)	(478.6)	(331.3)	–	(1,755.4)
Expenses for the acquisition of insurance contracts	(550.6)	(200.0)	(32.9)	–	(783.5)	(509.2)	(205.1)	(20.7)	–	(735.0)
Operational expenses	(409.8)	(98.5)	(55.6)	(38.9)	(602.8)	(464.9)	(78.2)	(71.6)	(9.8)	(624.5)
Net foreign exchange (losses)/gains	–	–	–	(12.6)	(12.6)	–	–	–	11.1	11.1
Results of operating activities	(271.5)	117.7	(38.9)	(49.1)	(241.8)	169.1	22.8	(117.1)	3.7	78.5

*See note 4 on page 150 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.

4 Operating segments continued

(c) Geographical information

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

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

Gross premium revenues earned from external parties

	Year to 31 December 2020					Year to 31 December 2019				
	Hiscox Retail \$m	Hiscox London Market \$m	Hiscox Re & ILS \$m	Corporate Centre \$m	Total \$m	Hiscox Retail \$m	Hiscox London Market \$m	Hiscox Re & ILS \$m	Corporate Centre \$m	Total \$m
UK	768.9	54.1	28.8	–	851.8	721.3	23.1	14.0	–	758.4
Europe	438.7	53.5	24.5	–	516.7	438.4	42.2	17.6	–	498.2
USA	918.7	695.1	512.9	–	2,126.7	858.6	746.4	517.6	–	2,122.6
Rest of world	113.4	225.7	236.9	–	576.0	100.7	156.4	295.6	–	552.7
	2,239.7	1,028.4	803.1	–	4,071.2	2,119.0	968.1	844.8	–	3,931.9

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

Non-current assets	2020 total \$m	2019 total \$m
UK	250.5	263.3
Europe	12.8	21.4
USA	138.6	120.8
Rest of world	11.3	9.5
	413.2	415.0

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

	2020 net asset value (total equity) \$m	2020 net asset value per share cents	2019 net asset value (total equity) \$m	2019 net asset value per share cents
Net asset value	2,353.9	689.0	2,189.7	768.2
Net tangible asset value	2,055.0	601.5	1,911.7	670.6

The net asset value per share is based on 341,647,634 shares (2019: 285,051,997 shares), being the shares in issue at 31 December 2020, 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 503.9p (2019: 580.1p).

6 Return on equity

	2020 \$m	2019 \$m
(Loss)/profit for the year (all attributable to owners of the Company)	(293.7)	48.9
Opening total equity	2,189.7	2,259.0
Adjusted for the time-weighted impact of capital distributions and issuance of shares	307.8	(52.3)
Adjusted opening total equity	2,497.5	2,206.7
Return on equity (%)	(11.8)	2.2

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	2020 \$m	2019 \$m
Investment income including interest receivable		107.4	123.7
Net realised gains on financial investments at fair value through profit or loss		45.5	34.4
Net fair value gains on financial investments at fair value through profit or loss		51.2	73.0
Investment result – financial assets	8	204.1	231.1
Net fair value losses on derivative financial instruments	19	(2.1)	(2.2)
Investment expenses		(4.5)	(5.9)
Total result		197.5	223.0

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:

	2020 %	2019 %
US Dollar	3.3	4.2
Sterling	2.3	3.5
Euro	0.3	0.2
Other	2.1	2.6

(b) Investment return

	2020 return \$m	2020 yield %	2019 return \$m	2019 yield %
Debt and fixed income securities	141.3	2.8	161.8	3.4
Equities and investment funds	58.4	10.8	61.4	13.3
Deposits with credit institutions/cash and cash equivalents	4.4	0.3	7.9	0.7
Investment result – financial assets	204.1	2.8	231.1	3.6

9 Other income and operational expenses

	2020 \$m	2019 \$m
Agency-related income	22.1	28.6
Profit commission	1.5	3.9
Other underwriting income	2.5	0.9
Other income	24.1	19.7
Other income	50.2	53.1
Wages and salaries	188.7	192.3
Social security costs	33.1	33.9
Pension cost – defined contribution	13.1	16.7
Pension cost – defined benefit	1.1	1.0
Share-based payments	10.3	3.6
Temporary staff costs	40.2	49.6
Travel and entertainment	6.2	20.6
Legal and professional	63.0	40.7
Office costs	15.7	12.7
Computer costs	58.6	70.4
Marketing expenses	59.4	88.9
Depreciation, amortisation and impairment	56.8	44.6
Other expenses	26.8	18.5
Operational expenses	573.0	593.5

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.

As a result of the disposals of MGA yacht business and the associated intangible assets and the RH Specialist vehicle insurance customer relationships, the Group has derecognised the relevant assets and liabilities. Below is a table disclosing the impact to the consolidated financial statements following the disposals.

	RH Specialist vehicle insurance \$m	MGA yacht \$m	Total \$m
Total assets no longer recognised in the consolidated balance sheet	(7.0)	(5.8)	(12.8)
Costs on disposal	–	(0.1)	(0.1)
Sale proceeds	10.2	2.7	12.9
Profit/(loss) recognised in the consolidated income statement	3.2	(3.2)	–

10 Finance costs

	Note	2020 \$m	2019 \$m
Interest charge associated with borrowings	17	28.6	28.7
Interest and expenses associated with bank borrowing facilities		10.7	3.2
Interest and charges associated with Letters of Credit	30	2.4	2.0
Other interest expenses [†]		2.3	2.7
Finance costs		44.0	36.6

[†]Including interest expenses on lease liabilities of \$1.4 million (2019: \$1.8 million).

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	2020 \$m	2019 \$m
Amounts receivable by the auditor and its associates in respect of:		
The auditing of the accounts of the Group and its subsidiaries	3.3	3.2
All audit-related assurance services	0.4	0.3
All other non-audit services	0.1	–
	3.8	3.5

The full audit fee payable for the Syndicate 33 and Syndicate 6104 audit has been included above, although an element of this is borne by the third-party participants in the Syndicate.

12 Goodwill and intangible assets

	Goodwill \$m	Syndicate capacity \$m	State authorisation licences \$m	Software and development costs \$m	Other \$m	Total \$m
At 1 January 2019						
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
Year ended 31 December 2020						
Opening net book amount	8.3	33.1	8.5	202.1	26.0	278.0
Additions	–	–	–	62.5	–	62.5
Disposals	–	–	–	–	(12.8)	(12.8)
Amortisation charges	–	–	–	(27.3)	(4.3)	(31.6)
Impairment charge	–	–	–	–	(0.2)	(0.2)
Foreign exchange movements	0.5	–	–	4.6	(2.1)	3.0
Closing net book amount	8.8	33.1	8.5	241.9	6.6	298.9
At 31 December 2020						
Cost	13.9	33.1	8.5	336.4	40.4	432.3
Accumulated amortisation and impairment	(5.1)	–	–	(94.5)	(33.8)	(133.4)
Net book amount	8.8	33.1	8.5	241.9	6.6	298.9

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. \$7.6 million (2019: \$7.2 million) is allocated to the Lloyd's corporate member entity CGU and \$1.2 million (2019: \$1.1 million) is allocated to the CGUs within the Hiscox Retail business segment. Goodwill is considered to have an indefinite life and as such is tested annually for impairment based on the recoverable amount which is considered to be the higher of the fair value less cost to sell or value in use. During 2020 there was no impairment charge on goodwill (2019: \$5.2 million).

Value in use is considered to be the best indication of the recoverable amount for goodwill. Value in use calculations are performed using cash flow projections based on financial forecasts that reflect the estimated impact of, and uncertainty related to, Covid-19. A discount factor, based on a weighted average cost of capital (WACC) for the Group of 7.0% to 8.5%, depending on the underlying currency (2019: 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.

Impairment assessments

The recent development of the pandemic, with reduced global economic activity, a surge in some insurance claims and the global political response to try to contain transmission of the virus, indicate the potential for impairments.

To test the sensitivity to variances, management flexed the key assumptions within a reasonably expected range. Within this range, goodwill and other intangible assets recoveries were stress tested and remain supportable across all cash-generating units or assets.

Intangible assets

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

(a) Syndicate capacity

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

The Group's intangible asset relating to Syndicate capacity has been allocated, for impairment testing purposes, to one individual CGU, being the active Lloyd's corporate member entity. The asset is tested annually for impairment based on its recoverable amount which is considered to be the higher of the asset's fair value less costs to sell or its value in use. The fair value of Syndicate capacity can be determined from the Lloyd's Syndicate capacity auctions. The value in use is determined using cash flow projections based on business plans approved by management and discounted at the applicable WACC rate. At 31 December 2020, the value in use exceeded the fair value less cost to sell or the carrying value of Syndicate capacity recognised on the balance sheet.

(b) US state authorisation licences

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

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

The licences are tested annually for impairment, and accumulated impairment losses are deducted from the historical cost. The carrying value of this asset is tested for impairment based on its value in use. The value in use is calculated using a projected cash flow based on business plans approved by management and discounted at the 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.

12 Goodwill and intangible assets

Intangible assets continued

(c) Software and development costs

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

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

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

The carrying value of software and development costs is reviewed for impairment on an ongoing basis by reference to the stage and expectation of a project. Additionally, at the end of each reporting period, the Group reviews the positions for any indication of impairment, and as a result of this no impairment was provided for 2020 (2019: \$nil).

At 31 December 2020 there were \$16.4 million of assets under development on which amortisation has yet to be charged (2019: \$79.8 million).

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

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

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

At the end of each reporting period, an assessment is made on whether there is any indication that customer contractual relationships may be impaired. Where indications of impairment are identified, the carrying value is tested for impairment based on the recoverable amount which is considered to be the higher of the fair value less costs to sell or value in use. The asset's value in use is considered to be the best indication of its recoverable amount. Value in use is calculated using the same method as described above for goodwill and the same discount rate used. The results of this test led to the impairment of \$0.2 million being recognised (2019: no impairment).

(e) Disposals

During the year, the Group disposed of the yacht business and the associated intangible assets and the RH Specialist vehicle insurance customer relationships. Please see note 9 for the result of the sale.

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 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)
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 amortisation and impairment	(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
Year ended 31 December 2020						
Opening net book amount	24.9	7.3	29.0	66.2	1.0	128.4
Additions	–	0.3	8.8	3.2	1.0	13.3
Disposals	(0.5)	(3.6)	(4.5)	(4.1)	–	(12.7)
Depreciation charge	(1.2)	(1.3)	(5.6)	(13.1)	(0.6)	(21.8)
Foreign exchange movements	–	(0.1)	1.1	1.2	–	2.2
Closing net book amount	23.2	2.6	28.8	53.4	1.4	109.4
At 31 December 2020						
Cost	30.2	13.6	61.1	79.7	2.7	187.3
Accumulated amortisation and impairment	(7.0)	(11.0)	(32.3)	(26.3)	(1.3)	(77.9)
Net book amount	23.2	2.6	28.8	53.4	1.4	109.4

The Group's land and buildings assets relate to freehold property in the UK. There was an impairment charge during the year of \$nil (2019: \$1.5 million).

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

The income from subleasing right-of-use assets amounted to \$0.8 million (2019: \$0.7 million).

14 Subsidiaries, associates and interests in other entities

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

(a) Subsidiaries

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

As at 31 December 2020, HDCM owned 72.6% of Syndicate 33 (2019: 72.6%), and 100% of Syndicate 3624 (2019: 100%). In view of the several, but not joint liability of, underwriting members at Lloyd's for the transactions of Syndicates in which they participate, the Group's attributable share of the transactions, assets and liabilities of these Syndicates has been included in the financial statements. The Group manages the underwriting of, but does not participate as a member of, Syndicate 6104 at Lloyd's which provides reinsurance to Syndicate 33 on a normal commercial basis. Consequently, aside from the receipt of managing agency fees, defined profit commissions as appropriate and interest arising on effective assets included within the experience account, the Group has no share in the assets, liabilities or transactions of Syndicate 6104. The position and performance of that Syndicate is therefore not included in the Group's financial statements.

(b) SPIs

The Kiskadee Diversified Fund and Kiskadee Select Fund (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 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.

The Kiskadee Cadence Fund was launched in December 2019 to achieve attractive risk-adjusted returns by investing primarily in a worldwide reinsurance and retrocession portfolio. The fund is a segregated account of Kiskadee ILS Fund SAC Ltd, which is managed by Hiscox Re Insurance Linked Strategies Ltd, the wholly owned subsidiary of the Group. The Group determined that it does control this entity and hence the fund is consolidated.

As at 31 December 2020, the Group recognised a financial asset at fair value of \$63.2 million (2019: \$61.2 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 \$899 million at 31 December 2020 (2019: \$888 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) Limited, both wholly owned subsidiaries, under normal commercial terms.

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

14 Subsidiaries, associates and interests in other entities continued

(c) Investments in associates

Year ended 31 December	2020 \$m	2019 \$m
At beginning of year	8.6	9.9
Disposals during the year	–	–
Impairments	(3.2)	(1.3)
Transfer to equity investments	–	(0.5)
Distributions received	(0.2)	(0.3)
Net profit from investments in associates	(0.3)	0.1
Foreign exchange movements	–	0.7
At end of year	4.9	8.6

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

	% interest held at 31 December	Assets \$m	Liabilities \$m	100% results	
				Revenues \$m	Profit after tax \$m
2020					
Associates incorporated in the UK and USA	from 29% to 35%	18.6	15.9	12.2	(2.1)
Associates incorporated in Europe	from 26%	4.4	2.3	2.5	1.2
Total at the end of 2020		23.0	18.2	14.7	(0.9)
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

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

	2020			2019		
	Gross \$m	Reinsurance \$m	Net \$m	Gross \$m	Reinsurance \$m	Net \$m
Balance deferred at 1 January	456.1	(124.7)	331.4	455.9	(106.8)	349.1
Acquisition costs incurred in relation to insurance contracts written	977.3	(269.8)	707.5	943.4	(301.4)	642.0
Acquisition costs expensed to the income statement*	(1,002.9)	289.0	(713.9)	(944.9)	283.9	(661.0)
Foreign exchange and other adjustments	8.7	(1.4)	7.3	1.7	(0.4)	1.3
Balance deferred at 31 December	439.2	(106.9)	332.3	456.1	(124.7)	331.4

*Including unexpired risk reserve write-off of \$6.6 million (2019: \$nil).

The deferred amount of insurance contract acquisition costs attributable to reinsurers of \$106.9 million (2019: \$124.7 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:

	2020 \$m	2019 \$m
Within one year	236.7	301.7
After one year	95.6	29.7
	332.3	331.4

16 Reinsurance assets

	Note	2020 \$m	2019 \$m
Reinsurers' share of insurance liabilities		3,645.0	3,387.7
Provision for non-recovery and impairment		(0.4)	(0.8)
Reinsurance assets	23	3,644.6	3,386.9

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

	2020 \$m	2019 \$m
Within one year	1,798.1	1,510.9
After one year	1,846.5	1,876.0
	3,644.6	3,386.9

Amounts due from reinsurers in respect of outstanding premiums and claims already paid by the Group are included in loans and receivables (note 18). The Group recognised a gain during the year of \$0.4 million (2019: gain of \$0.014 million) 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	2020 \$m	2019 \$m
Debt and fixed income securities		5,474.5	4,989.9
Equities and investment funds		578.3	486.4
Deposits with credit institutions		–	–
Total investments		6,052.8	5,476.3
Insurance-linked fund		63.2	61.2
Derivative financial instruments	19	0.8	1.5
Total financial assets carried at fair value		6,116.8	5,539.0

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

	2020 \$m	2019 \$m
Within one year	1,560.0	1,447.3
After one year	3,914.5	3,542.6
	5,474.5	4,989.9

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

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

	Note	2020 \$m	2019 \$m
Derivative financial instruments	19	0.6	0.6
Total financial liabilities carried at fair value		0.6	0.6

	2020 \$m	2019 \$m
Borrowings	943.3	725.6
Accrued interest on borrowings	2.8	2.6
Total financial liabilities carried at amortised cost	946.1	728.2

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 borrowings is estimated at \$822.6 million (2019: \$787.3 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 borrowings and accrued interest during the year comprises new short-term borrowings of \$180.6 million (2019: \$nil), the amortisation of the difference between the net proceeds received and the redemption amounts of \$0.8 million (2019: \$0.8 million), the movement in accrued interest of \$0.1 million (2019: \$0.2 million) plus exchange movements of \$36.4 million (2019: plus exchange movements of \$27.8 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:

	2020 \$m	2019 \$m
Debt and fixed income securities		
US Dollars	3,774.0	3,464.6
Sterling	990.4	961.6
Euro and other currencies	710.1	563.7
	5,474.5	4,989.9
Equities and investment funds		
US Dollars	323.3	265.5
Sterling	229.3	195.5
Euro and other currencies	25.7	25.4
	578.3	486.4
Total investments	6,052.8	5,476.3

18 Loans and receivables including insurance receivables

	2020 \$m	2019 \$m
Gross receivables arising from insurance and reinsurance contracts	1,453.8	1,419.0
Provision for impairment	(5.1)	(7.4)
Net receivables arising from insurance and reinsurance contracts	1,448.7	1,411.6
Due from contract holders, brokers, agents and intermediaries	880.2	862.2
Due from reinsurance operations	568.5	549.4
	1,448.7	1,411.6
Prepayments and accrued income	26.9	16.9
Other loans and receivables:		
Net profit commission receivable	8.1	13.1
Accrued interest	26.5	22.3
Share of Syndicates' other debtors' balances	43.0	32.2
Other debtors including related party amounts	38.0	60.2
Total loans and receivables including insurance receivables	1,591.2	1,556.3

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

Within one year	1,517.4	1,305.0
After one year	73.8	251.3
	1,591.2	1,556.3

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 release of \$2.3 million (2019: loss of \$5.3 million) for the impairment of receivables during the year ended 31 December 2020. 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 2020. 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 2020 all mature within one year of the balance sheet date and are detailed below:

31 December 2020	Gross contract notional amount \$m	Fair value of assets \$m	Fair value of liabilities \$m	Net balance sheet position \$m
Derivative financial instruments included on balance sheet				
Foreign exchange forward contracts	56.2	0.8	(0.5)	0.3
Interest rate futures contracts	86.2	–	(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	41.4	13.4	54.8
Gross fair value of liabilities	(40.6)	(13.9)	(54.5)
	0.8	(0.5)	0.3

31 December 2019

31 December 2019	Gross contract notional amount \$m	Fair value of assets \$m	Fair value of liabilities \$m	Net balance sheet position \$m
Derivative financial instruments included on balance sheet				
Foreign exchange forward contracts	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

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 \$1.7 million (2019: loss 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

To substantially hedge the interest rate risk the Group is exposed to, it continued to sell a number of government bond futures denominated in a range of currencies. All contracts are exchange traded and the Group made a loss on these futures contracts of \$0.4 million (2019: loss of \$0.7 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 2020	Level 1 \$m	Level 2 \$m	Level 3 \$m	Total \$m
Financial assets				
Debt and fixed income securities	1,118.8	4,355.7	–	5,474.5
Equities and investment funds	–	532.8	45.5	578.3
Insurance-linked funds	–	–	63.2	63.2
Derivative financial instruments	–	0.8	–	0.8
Total	1,118.8	4,889.3	108.7	6,116.8
Financial liabilities				
Derivative financial instruments	–	0.6	–	0.6
Total	–	0.6	–	0.6
As at 31 December 2019				
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

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

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

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

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

20 Fair value measurements continued

Included within Level 1 of the fair value hierarchy are certain government bonds, treasury bills, borrowings and exchange-traded equities which are measured based on quoted prices in active markets. The fair value of the borrowings that is carried at amortised cost, is estimated at \$822.6 million (2019: \$787.3 million) and is considered as Level 1 in the fair value hierarchy.

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

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 2020, the insurance-linked fund of \$63.2 million represents the Group's investment in the Kiskadee Funds (2019: \$61.2 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 that a 12% decrease in fair value of the liabilities would increase the fair value of the fund by \$9.8 million. Similarly, a 12% increase in fair value of liabilities would decrease the fair value of the fund by \$9.5 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		
	Equities and investment funds \$m	Insurance-linked funds \$m	Total \$m
31 December 2020			
Balance at 1 January	18.5	61.2	79.7
Fair value gains or losses through profit or loss*	(5.4)	2.7	(2.7)
Foreign exchange gains	1.9	–	1.9
Purchases	30.8	2.6	33.4
Settlements	(0.3)	(3.3)	(3.6)
Closing balance	45.5	63.2	108.7
Unrealised gains and (losses) in the year on securities held at the end of the year	(0.4)	2.7	2.3

*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		
	Equities and investment funds \$m	Insurance-linked funds \$m	Total \$m
31 December 2019			
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.

21 Cash and cash equivalents

	2020 \$m	2019 \$m
Cash at bank and in hand	1,448.8	903.2
Short-term deposits	128.4	212.7
Total	1,577.2	1,115.9

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 2020		31 December 2019	
	Share capital \$m	Number of shares 000	Share capital \$m	Number of shares 000
Authorised ordinary share capital of 6.5p (2019: 6.5p)	425.8	3,692,308	425.8	3,692,308
Issued ordinary share capital of 6.5p (2019: 6.5p)	38.7	353,955	34.1	296,108

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

Changes in Group share capital and contributed surplus	Ordinary share capital \$000	Share premium \$000	Contributed surplus \$000
At 1 January 2019	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
Equity raise – May 2020	4,595	444,503	–
Employee share option scheme – proceeds from shares issued	13	1,446	–
At 31 December 2020	38,659	516,452	183,969

On 6 May 2020, the Group announced the successful completion of the non-pre-emptive placing of new ordinary shares of 6.5 pence each in the capital of the Company announced on 5 May 2020. The capital raise of 57,693,425 new ordinary shares raised gross proceeds of approximately \$463 million or £375 million. The issuance represents, in aggregate, approximately 19.48% of the existing issued ordinary share capital of Hiscox prior to the capital raise. As a consequence the shareholders' equity of the Group and the available capital increased by approximately \$452 million and the total issued ordinary share capital of \$555 million.

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

During the year the decision was made not to pay a dividend to shareholders.

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

Share repurchase

The Trustees of the Group's Employee Benefit Trust purchased 1,958,864 shares (2019: nil) to facilitate the settlement of vesting awards under the Group's Performance Share Plan. As the trust is consolidated into the Group financial results, these purchases have been accounted for in the same way as treasury shares and have been charged against retained earnings. The shares are held by the trustees for the beneficiaries of the Trust.

Equity structure of Hiscox Ltd	Note	Number of ordinary shares in issue (thousands) 2020	Number of ordinary shares in issue (thousands) 2019
At 1 January		296,108	295,315
Equity raise – May 2020		57,693	–
Employee share option scheme – ordinary shares issued		154	339
Scrip dividends to owners of the Company		–	454
At 31 December		353,955	296,108

All issued shares are fully paid.

22 Share capital continued

Share options and Performance Share Plan awards

Performance Share Plan awards are granted to Directors and senior employees. No exercise price is attached to performance plan awards, although their attainment is conditional on the employee completing three years' service (the vesting period) and the Group achieving 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 an expense of \$10.3 million (2019: expense of \$3.6 million). This comprises an expense of \$10.1 million (2019: expense of \$2.7 million) in respect of Performance Share Plan awards and an expense of \$0.2 million (2019: expense of \$0.9 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.

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	2020	2019
Annual risk-free rates of return and discount rates (%)	(0.12)-0.08	0.42-0.68
Long-term dividend yield (%)	2.19	2.39
Expected life of options (years)	3.25	3.25
Implied volatility of share price (%)	41.0	21.0
Weighted average share price (p)	819.7	1,555.3

The weighted average fair value of each share option granted during the year was 225.1p (2019: 306.1p). The weighted average fair value of each Performance Share Plan award granted during the year was 836.5p (2019: 1,554.2p).

Movements in the number of share options and Performance Share Plan awards during the year and details of the balances outstanding at 31 December 2020 for the Executive Directors are shown in the annual report on remuneration 2020 (see pages 80 to 87). The total number of options and Performance Share Plan awards outstanding is 9,349,986 (2019: 9,293,491) of which 1,979,101 are exercisable (2019: 2,682,751). The total number of SAYE options outstanding is 2,642,893 (2019: 1,530,653).

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	2020 \$m	2019 \$m
Gross			
Claims reported and claim adjustment expenses		2,688.0	2,259.0
Unexpired risk reserve		31.5	–
Claims incurred but not reported		4,571.9	4,017.0
Unearned premiums		1,822.0	1,818.5
Total insurance liabilities, gross		9,113.4	8,094.5
Recoverable from reinsurers			
Claims reported and claim adjustment expenses		976.7	814.6
Unexpired risk reserve		8.6	–
Claims incurred but not reported		2,227.7	2,106.4
Unearned premiums		431.6	465.9
Total reinsurers' share of insurance liabilities	16	3,644.6	3,386.9
Net			
Claims reported and claim adjustment expenses		1,711.3	1,444.4
Unexpired risk reserve		22.9	–
Claims incurred but not reported		2,344.2	1,910.6
Unearned premiums		1,390.4	1,352.6
Total insurance liabilities, net		5,468.8	4,707.6

23 Insurance liabilities and reinsurance assets continued

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

	2020 \$m	2019 \$m
Within one year	3,323.8	2,588.2
After one year	2,145.0	2,119.4
	5,468.8	4,707.6

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 2020 and 2019 are not material.

23.1 Insurance contracts assumptions

(a) Process used to decide on assumptions

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

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

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

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

The 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. The margin included in the insurance liabilities at 31 December 2020 was 9.8% above the best estimate (2019: 9.4%).

(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

23.1 Insurance contracts assumptions

(b) Claims development tables continued

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

Accident year	2011 \$m	2012 \$m	2013 \$m	2014 \$m	2015 \$m	2016 \$m	2017 \$m	2018 \$m	2019 \$m	2020 \$m	Total \$m
Estimate of ultimate claims costs as adjusted for foreign exchange* at end of accident year:											
one year later	1,995.0	1,666.1	1,336.9	1,462.0	1,569.5	1,952.2	3,402.2	3,175.5	3,416.1	3,888.1	23,863.6
two years later	1,799.4	1,720.3	1,218.3	1,246.8	1,430.4	1,732.7	3,115.9	3,642.6	3,136.6	–	19,043.0
three years later	1,744.3	1,611.4	1,089.7	1,154.4	1,292.9	1,639.8	3,084.5	3,475.8	–	–	15,092.8
four years later	1,757.5	1,616.5	1,025.5	1,105.0	1,287.9	1,673.8	2,999.4	–	–	–	11,465.6
five years later	1,730.2	1,603.3	972.7	1,079.8	1,305.5	1,709.7	–	–	–	–	8,401.2
six years later	1,680.9	1,347.0	948.9	1,061.8	1,331.6	–	–	–	–	–	6,370.2
seven years later	1,612.7	1,353.0	944.5	1,047.4	–	–	–	–	–	–	4,957.6
eight years later	1,575.0	1,330.8	946.7	–	–	–	–	–	–	–	3,852.5
nine years later	1,548.8	1,299.9	–	–	–	–	–	–	–	–	2,848.7
ten years later	1,548.5	–	–	–	–	–	–	–	–	–	1,548.5
Current estimate of cumulative claims payments to date	1,548.5	1,299.9	946.7	1,047.4	1,331.6	1,709.7	2,999.4	3,475.8	3,136.6	3,888.1	21,383.7
Cumulative payments to date	(1,529.2)	(1,213.3)	(894.4)	(952.9)	(1,114.4)	(1,376.7)	(2,244.3)	(2,064.9)	(1,194.4)	(690.2)	(13,274.7)
Liability recognised at 100% level	19.3	86.6	52.3	94.5	217.2	333.0	755.1	1,410.9	1,942.2	3,197.9	8,109.0
Liability recognised in respect of prior accident years at 100% level											171.0
Total gross liability to external parties at 100% level†											8,280.0

*The foreign exchange adjustment arises from the retranslation of the estimates at each date using the exchange rate ruling at 31 December 2020.

†Excluding the unexpired risk reserve of \$43.4 million gross at 100%.

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

Accident year	2011 \$m	2012 \$m	2013 \$m	2014 \$m	2015 \$m	2016 \$m	2017 \$m	2018 \$m	2019 \$m	2020 \$m	Total \$m
Current estimate of cumulative claims	1,548.5	1,299.9	946.7	1,047.4	1,331.6	1,709.7	2,999.4	3,475.8	3,136.6	3,888.1	21,383.7
Less: attributable to external Names	(221.1)	(163.7)	(98.5)	(108.1)	(138.9)	(179.2)	(405.4)	(437.0)	(410.7)	(467.5)	(2,630.1)
Group's share of current ultimate claims estimate	1,327.4	1,136.2	848.2	939.3	1,192.7	1,530.5	2,594.0	3,038.8	2,725.9	3,420.6	18,753.6
Cumulative payments to date	(1,529.2)	(1,213.3)	(894.4)	(952.9)	(1,114.4)	(1,376.7)	(2,244.3)	(2,064.9)	(1,194.4)	(690.2)	(13,274.7)
Less: attributable to external Names	213.3	155.5	92.7	99.2	117.1	148.1	301.4	254.3	156.1	105.9	1,643.6
Group's share of cumulative payments	(1,315.9)	(1,057.8)	(801.7)	(853.7)	(997.3)	(1,228.6)	(1,942.9)	(1,810.6)	(1,038.3)	(584.3)	(11,631.1)
Liability for 2011 to 2020 accident years recognised on Group's balance sheet	11.5	78.4	46.5	85.6	195.4	301.9	651.1	1,228.2	1,687.6	2,836.3	7,122.5
Liability for accident years before 2011 recognised on Group's balance sheet											137.4
Total Group liability to external parties included in balance sheet – gross**											7,259.9

**This represents the claims element of the Group's liabilities excluding the unexpired risk reserve of \$31.5 million.

23 Insurance liabilities and reinsurance assets

23.1 Insurance contracts assumptions

(b) Claims development tables continued

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

Accident year	2011 \$m	2012 \$m	2013 \$m	2014 \$m	2015 \$m	2016 \$m	2017 \$m	2018 \$m	2019 \$m	2020 \$m	Total \$m
Estimate of ultimate claims costs as adjusted for foreign exchange* at end of accident year:											
one year later	1,515.0	1,187.8	1,140.0	1,185.3	1,260.2	1,477.1	1,857.2	1,815.3	1,812.1	2,234.8	15,484.8
two years later	1,401.3	1,046.7	1,012.5	1,042.1	1,166.0	1,338.7	1,639.3	1,855.5	1,751.7	–	– 12,253.8
three years later	1,346.1	971.5	910.2	946.6	1,069.4	1,266.3	1,623.1	1,801.6	–	–	– 9,934.8
four years later	1,342.3	936.4	843.4	890.8	1,062.0	1,294.0	1,665.1	–	–	–	– 8,034.0
five years later	1,332.6	926.8	840.2	863.2	1,061.5	1,331.0	–	–	–	–	– 6,355.3
six years later	1,280.0	947.5	812.7	842.1	1,088.8	–	–	–	–	–	– 4,971.1
seven years later	1,243.8	936.3	812.0	836.7	–	–	–	–	–	–	– 3,828.8
eight years later	1,210.2	913.9	811.5	–	–	–	–	–	–	–	– 2,935.6
nine years later	1,190.0	902.6	–	–	–	–	–	–	–	–	– 2,092.6
Current estimate of cumulative claims	1,190.0	902.6	811.5	836.7	1,088.8	1,331.0	1,665.1	1,801.6	1,751.7	2,234.8	13,613.8
Cumulative payments to date	(1,178.1)	(833.5)	(764.7)	(722.3)	(880.2)	(1,046.1)	(1,257.1)	(1,234.2)	(832.1)	(496.0)	(9,244.3)
Liability recognised at 100% level	11.9	69.1	46.8	114.4	208.6	284.9	408.0	567.4	919.6	1,738.8	4,369.5
Liability recognised in respect of prior accident years at 100% level											137.3
Total net liability to external parties at 100% level[†]											4,506.8

*The foreign exchange adjustment arises from the retranslation of the estimates at each date using the exchange rate ruling at 31 December 2020.

[†]Excluding the unexpired risk reserve of \$31.6 million net at 100%.

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

Accident year	2011 \$m	2012 \$m	2013 \$m	2014 \$m	2015 \$m	2016 \$m	2017 \$m	2018 \$m	2019 \$m	2020 \$m	Total \$m
Current estimate of cumulative claims	1,190.0	902.6	811.5	836.7	1,088.8	1,331.0	1,665.1	1,801.6	1,751.7	2,234.8	13,613.8
Less: attributable to external Names	(159.4)	(93.2)	(80.2)	(81.0)	(112.5)	(125.7)	(155.4)	(168.3)	(183.3)	(240.7)	(1,399.7)
Group's share of current ultimate claims estimate	1,030.6	809.4	731.3	755.7	976.3	1,205.3	1,509.7	1,633.3	1,568.4	1,994.1	12,214.1
Cumulative payments to date	(1,178.1)	(833.5)	(764.7)	(722.3)	(880.2)	(1,046.1)	(1,257.1)	(1,234.2)	(832.1)	(496.0)	(9,244.3)
Less: attributable to external Names	152.7	86.1	74.9	73.8	92.3	101.3	115.9	125.3	96.3	61.0	979.6
Group's share of cumulative payments	(1,025.4)	(747.4)	(689.8)	(648.5)	(787.9)	(944.8)	(1,141.2)	(1,108.9)	(735.8)	(435.0)	(8,264.7)
Liability for 2011 to 2020 accident years recognised on Group's balance sheet	5.2	62.0	41.5	107.2	188.4	260.5	368.5	524.4	832.6	1,559.1	3,949.4
Liability for accident years before 2011 recognised on Group's balance sheet											106.1
Total Group liability to external parties included in balance sheet – net*[†]											4,055.5

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

[†]Excluding the unexpired risk reserve of \$22.9 million.

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	2020			2019		
	Gross \$m	Reinsurance \$m	Net \$m	Gross \$m	Reinsurance \$m	Net \$m
Total at beginning of year	6,276.0	(2,921.0)	3,355.0	4,992.2	(2,047.1)	2,945.1
Claims and claim adjustment expenses for the year	2,966.5	(1,043.8)	1,922.7	3,206.7	(1,630.6)	1,576.1
Cash (paid)/received for claims settled in the year	(2,085.0)	768.8	(1,316.2)	(1,940.6)	761.9	(1,178.7)
Foreign exchange and other adjustments	133.9	(17.0)	116.9	17.7	(5.2)	12.5
Total at end of year	7,291.4	(3,213.0)	4,078.4	6,276.0	(2,921.0)	3,355.0
Claims reported and claim adjustment expenses	2,688.0	(976.7)	1,711.3	2,259.0	(814.6)	1,444.4
Claims incurred but not reported	4,571.9	(2,227.7)	2,344.2	4,017.0	(2,106.4)	1,910.6
Unexpired risk reserve	31.5	(8.6)	22.9	–	–	–
Total at end of year	7,291.4	(3,213.0)	4,078.4	6,276.0	(2,921.0)	3,355.0

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

Year ended 31 December	2020			2019		
	Gross \$m	Reinsurance \$m	Net \$m	Gross \$m	Reinsurance \$m	Net \$m
Current year claims and claim adjustment expenses	2,422.0	(490.2)	1,931.8	3,584.6	(1,982.6)	1,602.0
Over-provision in respect of prior year claims and claim adjustment expenses	513.0	(545.0)	(32.0)	(377.9)	352.0	(25.9)
Unexpired risk reserve	31.5	(8.6)	22.9	–	–	–
Total at end of year	2,966.5	(1,043.8)	1,922.7	3,206.7	(1,630.6)	1,576.1

A reconciliation of the unearned premium reserves is as follows:

	2020			2019		
	Gross \$m	Reinsurance \$m	Net \$m	Gross \$m	Reinsurance \$m	Net \$m
Balance deferred at 1 January	1,818.5	(465.9)	1,352.6	1,709.3	(409.5)	1,299.8
Premiums written	4,033.1	(1,282.7)	2,750.4	4,030.7	(1,351.9)	2,678.8
Premiums earned through the income statement	(4,071.2)	1,319.0	(2,752.2)	(3,931.9)	1,296.3	(2,635.6)
Foreign exchange and other adjustments	41.6	(2.0)	39.6	10.4	(0.8)	9.6
Balance deferred at 31 December	1,822.0	(431.6)	1,390.4	1,818.5	(465.9)	1,352.6

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:

	2020 \$m	2019 \$m
Gross premium written	4,033.1	4,030.7
Outward reinsurance premium	(1,282.7)	(1,351.9)
Net premium written	2,750.4	2,678.8
Change in gross unearned premium reserves	38.1	(98.8)
Change in reinsurers' share of unearned premium reserves	(36.3)	55.6
Change in net unearned premium reserves	1.8	(43.2)
Net premiums earned	2,752.2	2,635.6

23 Insurance liabilities and reinsurance assets

23.2 Movements in insurance claims liabilities and reinsurance claims assets continued

In response to the Covid-19 pandemic, the Group reviewed and assessed the potential implications for each class of business that the Group underwrites, across all its platforms, with involvement from underwriting, reserving, claims and finance teams. The output of this assessment formed the basis of reserving.

The Group has material exposure to losses arising out of the Covid-19 pandemic and currently reserves \$475 million net of reinsurance for these claims (Hiscox Retail: \$398 million, Hiscox London Market: \$13 million, Hiscox Re & ILS: \$64 million on Group's share basis). The Covid-19 pandemic is an unprecedented event for the insurance industry and the effects of it as a loss event to the insurance and reinsurance markets remain both ongoing and uncertain. The ultimate amounts of these claims are subject to a higher than normal level of uncertainty in the best estimate at this stage of development. Consequentially, in measuring the liabilities, the Group has included an allowance for risk and uncertainties that is above the best estimate to reflect the early stage in the claim development process.

In determining the Covid-19-related net claims, the Group estimates the reinsurers' share of the claims by applying a consistent set of assumptions with those in determining the gross claims, considering the individual wording of the reinsurance treaties, and estimating default risks, as described in note 3.3(d). Changes to this set of assumptions and estimate could materially affect the amount of reinsurers' share of the claims.

Lloyd's Part VII transfer

On 30 December 2020, the members and former members of the Syndicate, as comprised for each of the relevant years of account between 1993 and April 2019, transferred all relevant policies (and related liabilities) underwritten by them for those years of account to Lloyd's Insurance Company S.A. ('Lloyd's Brussels'), in accordance with Part VII of the Financial Services and Markets Act 2000. On the same date, the members of the Syndicate entered into a 100% quota share reinsurance agreement whereby Lloyd's Brussels reinsured all risks on the same policies back to the relevant open years of account of the Syndicate, which wrote the transferring policies and/or inherited liabilities on transferring policies through reinsurance to close of earlier years of account.

Following the sanction of the scheme by the High Court on 25 November 2020, the scheme took effect on 30 December 2020 and the members and former members of the Syndicate transferred the impacted EEA policies and related liabilities to Lloyd's Brussels, together with cash of \$154.8 million. On the same date, under the reinsurance agreement, Lloyd's Brussels reinsured the same risks back, together with an equal amount of cash of \$154.8 million and non-cash assets relating to the transferred liabilities. The combined effect of the two transactions had no economic impact for the Syndicate, and accordingly there is no impact on the Syndicate's income statement and no net impact on the balance sheet.

No adjustment has been made in the segmental note for transactions that occurred in respect of the transferred business up to the date of the transfer, which is consistent with the income statement presentation. Outstanding debtor and creditor balances in respect of the transferred business that were previously classified as arising out of direct reinsurance operations have been reclassified as arising out of reinsurance operations.

Current year underwriting results for the transferred policies have been reported in the same classes of business as in prior years, as the effective date of the transfer was 30 December 2020, and in line with Society of Lloyd's guidance no movements were processed on these policies on 31 December 2020. In future years, results relating to these risks will be reported under the inwards reinsurance class of business, reflecting the new contractual arrangement with Lloyd's Brussels.

24 Trade and other payables

	Note	2020 \$m	2019 \$m
Creditors arising out of direct insurance operations		101.0	139.4
Creditors arising out of reinsurance operations		836.0	823.1
		937.0	962.5
Share of Syndicates' other creditors' balances		1.8	2.9
Social security and other taxes payable		51.7	39.7
Lease liabilities		59.7	71.4
Other creditors		30.1	74.1
		143.3	188.1
Reinsurers' share of deferred acquisition costs	15	106.9	124.7
Accruals and deferred income		148.4	145.0
Total		1,335.6	1,420.3

Included within accruals and deferred income is \$4.9 million (2019: \$6.4 million) of deferred gain on retroactive reinsurance contracts.

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

	2020 \$m	2019 \$m
Within one year	1,239.2	1,317.1
After one year	96.4	103.2
	1,335.6	1,420.3

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:

	2020 \$m	2019 \$m
Not later than one year	16.5	15.9
Later than one year and not later than five years	38.9	46.5
Later than five years	13.6	18.0
Total undiscounted lease liabilities at 31 December	69.0	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 2020 (2019: \$nil).

There were no leases with residual values guarantees (2019: none). The leases not yet commenced to which the Group is committed amounted to \$55.2 million (2019: \$55.3 million).

Payments associated with short-term leases amounting to \$1.2 million (2019: \$2.7 million) and leases of low-value assets amounting to \$nil (2019: \$0.1 million) are recognised on a straight-line basis as an expense in profit or loss.

25 Tax expense

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

	2020 \$m	2019 \$m
Current tax		
Expense for the year	11.5	36.0
Adjustments in respect of prior years	1.7	(7.0)
Total current tax expense	13.2	29.0
Deferred tax		
Credit for the year	(12.3)	(28.7)
Adjustments in respect of prior years	26.4	3.8
Effect of rate change	(2.1)	0.1
Total deferred tax expense/(credit)	12.0	(24.8)
Total tax charged to the income statement	25.2	4.2

The standard rate of corporation tax in Bermuda is 0% whereas the effective rate of tax for the Group is -9% (2019: 8%).

A reconciliation of the difference is provided below:

	2020 \$m	2019 \$m
(Loss)/profit before tax	(268.5)	53.1
Tax calculated at the standard corporation tax rate applicable in Bermuda: 0% (2019: 0%)		
Effects of Group entities subject to overseas tax at different rates	(20.6)	7.9
Impact of overseas tax rates on:		
Effect of rate change	(2.1)	0.6
Expenses not deductible for tax purposes	2.7	1.2
Tax losses for which no deferred tax asset is recognised	8.6	1.6
Other	8.7	0.9
Adjustment for share-based payments	(0.2)	0.4
Non-taxable income	-	(5.2)
Prior year tax adjustments	28.1	(3.2)
Tax charge for the year	25.2	4.2

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 certain 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

	2020 \$m	2019 \$m
Net deferred tax assets		
Trading losses in overseas entities	31.8	51.5
Deferred tax assets	140.6	76.1
Deferred tax liabilities	(101.7)	(50.7)
Total deferred tax asset	70.7	76.9
Net deferred tax liabilities		
Deferred tax assets	(2.0)	–
Deferred tax liabilities	4.7	0.4
Total net deferred tax liability	2.7	0.4

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	2019 \$m	Reallocation \$m	Income statement (charge) /credit \$m	Recognised in other comprehensive income/equity \$m	Foreign exchange \$m	2020 \$m
Tangible assets	0.9	–	(2.0)	–	–	(1.1)
UK capital losses	–	–	–	–	–	–
Trade and other payables	4.0	–	(2.3)	–	–	1.7
Intangible assets – Syndicate capacity	1.5	–	–	–	–	1.5
Retirement benefit obligations	8.8	–	(1.5)	8.9	0.3	16.5
Open years of account	40.4	–	37.6	–	2.2	80.2
Unearned premium	8.3	–	1.4	–	–	9.7
Loss reserve discounting	5.7	–	1.2	–	–	6.9
Other items	6.5	0.3	(4.5)	(6.8)	–	(4.5)
Total deferred tax assets	76.1	0.3	29.9	2.1	2.5	110.9
Financial assets	(1.2)	–	0.3	–	–	(0.9)
Insurance contracts – equalisation provision	(10.3)	(2.1)	10.4	–	(0.2)	(2.2)
Reinsurance premiums	(24.3)	–	(22.2)	–	(1.2)	(47.7)
Deferred acquisition costs	(14.1)	0.2	(5.1)	–	–	(19.0)
Other items	(0.8)	–	(1.1)	–	–	(1.9)
Total deferred tax liabilities	(50.7)	(1.9)	(17.7)	–	(1.4)	(71.7)
Net total deferred tax assets/(liabilities)	25.4	(1.6)	12.2	2.1	1.1	39.2
Trading losses in overseas entities	51.5	–	(20.2)	–	0.5	31.8
Net total deferred tax assets/(liabilities)	25.4	(1.6)	12.2	2.1	0.8	38.9
Net deferred tax position asset/(liability)	76.9	(1.6)	(8.0)	2.1	1.3	70.7
Intangible assets	–	–	(2.0)	–	–	(2.0)
Technical reserves	–	1.9	(2.8)	–	0.1	(0.8)
Other	(0.4)	(0.3)	0.8	–	–	0.1
Net total deferred tax position (liabilities)/assets	(0.4)	1.6	(4.0)	–	0.1	(2.7)
Net Group deferred tax asset/(liability)	76.5	–	(12.0)	2.1	1.4	68.0

26 Deferred tax

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

Movements in deferred and current tax relating to tax deductions arising on employee share options are recognised in the statement of changes in equity to the extent that the movement exceeds the corresponding charge to the income statement. Movements in deferred tax relating to the employee retirement benefit obligation are recognised in the statement of comprehensive income to the extent that the movement corresponds to actuarial gains and losses recognised in the statement of comprehensive income. The total recognised outside the income statement is \$3.5 million of income (2019: income of \$3.6 million), comprising \$2.1 million deferred tax income and \$1.4 million current tax income (2019: \$0.5 million deferred tax expense and \$4.1 million current tax income).

Deferred tax assets of \$31.8 million (2019: \$51.5 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. \$20.6 million (2019: \$12.3 million) of the tax losses to which these assets relate will expire within ten years; a further \$11.2 million (2019: \$39.2 million) will expire after ten years or will be available indefinitely. The Group has not provided for deferred tax assets totalling \$44.0 million (2019: \$18.5 million) in relation to losses in overseas companies of \$224.7 million (2019: \$102.9 million). The deterioration in the economic environment together with significant Covid-19-related claims in 2020 has affected the results of the Group and its subsidiaries for the period, and changed assumptions around the timing of when carried forward losses could be utilised. Therefore, there is an adjustment to derecognise \$20 million of carried forward losses. Net deferred tax assets of \$35.4 million relating to UK 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 six years. In accordance with IAS 12, all deferred tax assets and liabilities are classified as non-current. The amount of deferred tax assets expected to be recovered after more than 12 months is \$68.0 million (2019 (restated): \$76.5 million). Following a review, the 2019 comparative has been corrected on the grounds that all of the recognised deferred tax asset is non-current and expected to reverse after 12 months.

Factors affecting tax charges in future years

Budgets in previous years announced changes to the main rate of UK corporation tax. The current rate of 19% was enacted on 26 October 2015 and applied from 1 April 2017.

A reduction in the UK corporation tax rate from 19% to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016, and the UK deferred tax asset as at 31st December 2019 was calculated based on this rate. In the 11 March 2020 Budget it was announced that the UK tax rate will remain at the current 19% and not reduce to 17% from April 2020. This was substantively enacted 17 March 2020. This will have a consequential effect on the company's future tax charge and deferred tax assets in relation to the UK have increased by \$2.5 million.

The impact of these changes in future periods will be dependent on the level of taxable profits in those periods.

27 Employee retirement benefit obligations

The Company's subsidiary Hiscox plc operates a defined benefit pension scheme based on final pensionable salary. The scheme closed to future 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:

	2020 \$m	2019 \$m
Present value of scheme obligations	417.9	366.7
Fair value of scheme assets	(344.4)	(311.6)
Net amount recognised as a defined benefit obligation	73.5	55.1

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.

27 Employee retirement benefit obligations continued

The scheme assets are invested are as follows:

At 31 December	2020 \$m	2019 \$m
Investment assets		
Pooled investment vehicles	222.7	219.1
Equities	75.0	70.9
Bonds	12.1	7.4
Derivatives	0.2	0.1
Cash	34.4	14.1
	344.4	311.6

The amounts recognised in total comprehensive income are as follows:

	Note	2020 \$m	2019 \$m
Past service cost		–	–
Interest cost on defined benefit obligation		7.6	8.6
Interest income on plan assets		(6.5)	(7.6)
Net interest cost		1.1	1.0
Administrative expenses and taxes		–	–
Total expense recognised in operational expenses in the income statement	9	1.1	1.0
Remeasurements			
Effect of changes in actuarial assumptions		52.1	52.6
Return on plan assets (excluding interest income)		(6.5)	(32.8)
Remeasurement of third-party Names share of defined benefit obligation		(7.6)	(3.3)
Total remeasurement included in other comprehensive income		38.0	16.5
Total defined benefit charge recognised in comprehensive income		39.1	17.5

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 and has recognised a charge of £15,000 (\$20,000) during the year (2019: \$nil).

The movement in liability recognised in the Group's balance sheet is as follows:

	2020 \$m	2019 \$m
Group defined benefit liabilities at beginning of year	55.1	35.8
Third-party Names' share of liability	(10.5)	(6.6)
Net defined benefit liability at beginning of year	44.6	29.2
Defined benefit cost included in net income	1.1	1.0
Contribution by employer	(30.4)	(3.6)
Credit from third-party Names	(0.2)	(0.2)
Foreign exchange movements	1.6	1.7
Total remeasurement included in other comprehensive income	38.0	16.5
Net defined benefit liability at end of year	54.7	44.6
Third-party Names' share of liability	18.8	10.5
Group defined benefit liability at end of year	73.5	55.1

27 Employee retirement benefit obligations continued

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

	2020 \$m	2019 \$m
Opening fair value of scheme assets	311.6	266.2
Interest income	6.5	7.6
Cash flows		
Contribution by the employer	30.4	3.6
Benefit payments	(21.4)	(10.4)
Remeasurements		
Return on plan assets (excluding interest income)	6.5	32.8
Foreign exchange movements	10.8	11.8
Closing fair value of scheme assets	344.4	311.6

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

	2020 \$m	2019 \$m
Opening present value of scheme obligations	366.7	302.0
Past service cost	–	–
Interest expense	7.6	8.6
Cash flows		
Benefit payments	(21.4)	(10.4)
Remeasurements		
Changes in actuarial assumptions	52.1	52.6
Foreign exchange movements	12.9	13.9
Closing present value of scheme obligations	417.9	366.7

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:

	2020	2019
Male	28.0	27.9
Female	29.1	29.0

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

	2020	2019
Male	29.1	29.0
Female	30.2	30.2

The weighted average duration of the defined benefit obligation at 31 December 2020 was 20.1 years (2019: 20.5 years).

27 Employee retirement benefit obligations continued

Other principal actuarial assumptions are as follows:

	2020 %	2019 %
Discount rate	1.40	2.10
Inflation assumption (RPI)	2.90	2.90
Inflation assumption (CPI)	2.50	1.90
Pension increases	2.75	2.90

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 £22.8 million (\$30.4 million) was paid during 2020, including an advance payment for contributions due in 2021. No further contributions are expected until the statutory funding valuation as at 31 December 2020 has completed and a new schedule of contributions is agreed between the Company and the Trustees.

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 £14.1 million (\$19.3 million) at 31 December 2020 (2019: £11.8 million (\$15.6 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.

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 2020 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 1.65%	73.5	53.5	20.0
Use of discount rate of 1.15%	73.5	95.0	(21.5)
Effect of a change in inflation			
Use of RPI inflation assumption of 3.15%	73.5	80.1	(6.6)
Use of RPI inflation assumption of 2.65%	73.5	67.3	6.2

28 Earnings per share

Basic (loss)/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.

	2020	2019
Basic		
(Loss)/profit for the year attributable to the owners of the Company (\$m)	(293.7)	48.9
Weighted average number of ordinary shares (thousands)	320,562	284,015
Basic (loss)/earnings per share (cents per share)	(91.6)¢	17.2¢
Basic (loss)/earnings per share (pence per share)	(71.5)p	13.5p

Diluted

Diluted (loss)/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.

	2020	2019
(Loss)/profit for the year attributable to the owners of the Company (\$m)	(293.7)	48.9
Weighted average number of ordinary shares in issue (thousands)	320,562	284,015
Adjustments for share options (thousands)	3,498	4,361
Weighted average number of ordinary shares for diluted (loss)/earnings per share (thousands)	324,060	288,376
Diluted (loss)/earnings per share (cents per share)	(90.6)¢	16.9¢
Diluted (loss)/earnings per share (pence per share)	(70.7)p	13.3p

Diluted (loss)/earnings per share has been calculated after taking account of 3,431,623 (2019: 4,067,881) Performance Share Plan awards and 66,010 (2019: 293,028) options under SAYE schemes.

29 Dividends paid to owners of the Company

	2020 \$m	2019 \$m
Final dividend for the year ended:		
31 December 2018 of 28.6¢ (net) per share	–	81.4
Interim dividend for the year ended:		
31 December 2019 of 13.75¢ (net) per share	–	39.5
	–	120.9

As announced on 8 April 2020, in order to help the Group serve the needs of businesses through the extraordinary challenges presented by Covid-19, and with the support of the regulators, the Hiscox Ltd Board took the decision that the resolution to approve the 2019 final dividend of 29.6 cents per share, which was scheduled for payment on 10 June 2020, would not be put to shareholders at the Annual General Meeting (AGM).

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.

The Board also agreed that, for 2020, the Group would not propose an interim dividend payment, or conduct any further share buybacks. In addition, the Board has not declared a final dividend for the year ended 31 December 2020 (2019: \$75.2 million and 296,044 shares for the scrip dividend). The interim dividends for 2019 were either paid in cash or issued as a scrip dividend at the option of the shareholder (2020: \$nil; 2019: \$36.4 million and 157,487 shares for the scrip dividend).

2019 interim dividends were declared in US Dollars, aligning shareholder returns with the primary currency in which the Group generates cash flow. The foreign exchange rates for dividends declared in US Dollars have been calculated based on the average exchange rate in the five business days prior to the scrip dividend price being determined. Historically, dividends have been paid in Sterling unless shareholders elect to be paid in US Dollars.

30 Contingencies and guarantees

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

The following guarantees have also been issued:

- (a) Hiscox Dedicated Corporate Member Limited (HDCM) and Hiscox Insurance Company (Bermuda) Limited (Hiscox Bermuda) provide assets under a Security and Trust Deed charged to Lloyd's of London, to meet any liabilities that occur from their interest in Syndicates 33 and 3624. At 31 December 2020, HDCM held \$316.1 million of investments (2019: \$433.4 million), \$8.8 million of cash (2019: \$40.7 million) and a \$241.0 million LOC (2019: \$25.0 million) in favour of Lloyd's of London under this arrangement. At 31 December 2020, Hiscox Bermuda held \$884.6 million of investments (2019: \$622.4 million), \$25.9 million of cash (2019: \$38.6 million) and a \$25.0 million LOC (2019: \$25.0 million) in favour of Lloyd's of London under this arrangement.
- (b) During the year, HDCM entered into a \$65 million FAL agreement under which the lending bank provides assets on HDCM's behalf under a security and trust deed charged to Lloyd's of London as part of the Company's Fund's at Lloyd's provision. At 31 December 2020 the full \$65 million was utilised.
- (c) Hiscox plc continued with its LOC and revolving credit facility with Lloyds Banking Group, as agent for a syndicate of banks, which may be drawn in cash up to £450 million under a revolving credit facility or LOC up to \$266 million (2019: \$800 million aggregate facility). The terms also provide that the facility may be drawn in USD, GBP or EUR, or another currency with the agreement of the banks. At 31 December 2020 \$266.0 million (2019: \$50.0 million) was utilised by way of LOC to support the Funds at Lloyd's requirement and \$193.4 million cash drawings were outstanding (2019: \$nil).
- (d) Hiscox Insurance Company Limited has arranged a LOC of £50,000 (2019: £50,000) with NatWest Bank plc to support its consortium activities with Lloyd's; the arrangement is collateralised with cash of £50,000 (2019: £50,000).
- (e) The Council of Lloyd's has the discretion to call a contribution of up to 3% of capacity if required from the managed syndicates.
- (f) As Hiscox Bermuda is not an admitted insurer or reinsurer in the USA, the terms of certain US insurance and reinsurance contracts require Hiscox Bermuda to provide LOCs or other terms of collateral to clients. Hiscox Bermuda has in place a LOC reimbursement and pledge agreement with Citibank for the provision of a LOC facility in favour of USA ceding companies and other jurisdictions, and also LOC 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 LOCs (2019: \$470.0 million).

LOCs issued under these facilities are collateralised by cash, US government and corporate securities of Hiscox Bermuda. LOCs under these facilities totalling \$140.1 million were issued with an effective date of 31 December 2020 (2019: \$150.8 million on a \$470 million facility) and these were collateralised by US government and corporate securities with a fair value of \$169.5 million (2019: \$172.9 million). In addition, Hiscox Bermuda maintained assets in trust accounts to collateralise obligations under various reinsurance agreements. At 31 December 2020, total cash and marketable securities with a carrying value of approximately \$18.4 million (2019: \$9.3 million) was held in external trusts. Cash and marketable securities with an approximate market value of \$598.7 million (2019: \$476.3 million) were held in trust in respect of internal quota share arrangements.

- (g) Hiscox SA has arranged bank guarantees with respect to their various office deposits for a total of €433,336 (2019: €412,000). These guarantees are held with ING Bank (Belgium) €23,000 (2019: €23,000), ABN Amro (Holland) €45,000 (2019: €45,000), HypoVereinsbank – UniCredit (Germany) €156,336 (2019: €135,000), ING Bank (Luxembourg) \$42,000 (2019: €42,000) and HSBC (Spain) €167,000 (2019: €167,000). 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.
- (h) 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 \$9.9 million (2019: \$11.9 million). During the year, the Group has reviewed the reporting on contracted commitments and as a result identified contracts that were previously omitted. Comparative figures have been represented to reflect this. 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:

	2020 \$m	2019 \$m
No later than one year	0.4	0.7
Later than one year and no later than five years	–	0.4
	0.4	1.1

32 Principal subsidiary companies of Hiscox Ltd at 31 December 2020

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 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 2020 (2019: 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 2020 on pages 80 to 87. 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 (2019: 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 2020 \$m	31 December 2019 \$m	31 December 2020 \$m	31 December 2019 \$m
Hiscox Syndicates Limited	5.1	3.3	1.2	0.5
Hiscox Group insurance carriers	15.6	(34.6)	(114.8)	(130.5)
Hiscox Group insurance intermediaries	(1.5)	5.8	(14.4)	(6.7)
Other Hiscox Group companies	32.8	31.1	22.6	0.4
	52.0	5.6	(105.4)	(136.3)

(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.

	2020 \$m	2019 \$m
Gross premium income achieved through associates	12.1	13.7
Commission expense charged by associates	3.0	3.6
Amounts payable to associates at 31 December	–	–
Amounts receivable through associates at 31 December	55.4	51.5

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

Changes to segmental reporting

Hiscox Special Risks, which is a business reported under the Hiscox Retail segment, ceased to exist from 1 January 2021. To better reflect a distribution-led geographic view, kidnap and ransom businesses locally written in Europe and the USA is now managed by the respective Hiscox retail businesses and continues to be reported under the Hiscox Retail segment. Other Special Risks businesses are managed by the London Market business unit and reported under that operating segment. The segmental reporting will be represented accordingly in 2021. There is no impact to the Group's income statement, balance sheet or cash flow statements.

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.

To align to the financial information presented in operating segment, note 4 to the consolidated financial statements and management information, the Directors decided to stop disclosing premium growth in local currency as key performance measure. The Group reports the premium growth in US Dollars, the presentation currency of the consolidated financial statements.

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

	2020 \$m	2019 (restated)* \$m	2018 \$m	2017 \$m	2016 \$m
Results					
Gross premiums written	4,033.1	4,030.7	3,778.3	3,286.0	3,257.9
Net premiums written	2,750.4	2,678.8	2,581.5	2,403.0	2,424.5
Net premiums earned	2,752.2	2,635.6	2,573.6	2,416.2	2,271.3
(Loss)/profit before tax	(268.5)	53.1	135.6	37.8	480.0
(Loss)/profit for the year after tax	(293.7)	48.9	117.9	22.7	447.2
Assets employed					
Intangible assets	298.9	278.0	204.6	186.0	153.4
Financial assets carried at fair value	6,116.8	5,539.0	5,029.7	5,139.6	4,702.1
Cash and cash equivalents	1,577.2	1,115.9	1,288.8	867.8	824.4
Insurance liabilities and reinsurance assets	(5,468.8)	(4,707.6)	(4,244.9)	(4,174.4)	(3,778.7)
Other net assets	(170.2)	(35.6)	(19.2)	298.2	316.2
Net assets	2,353.9	2,189.7	2,259.0	2,317.2	2,217.4
Net asset value per share (¢)	689.0	768.2	798.6	817.1	792.5
Key statistics					
Basic (loss)/earnings per share (¢)	(91.6)	17.2	41.6	8.1	159.0
Basic (loss)/earnings per share (p)	(71.5)	13.5	31.2	9.3	119.8
Diluted (loss)/earnings per share (¢)	(90.6)	16.9	40.8	11.6	157.3
Diluted (loss)/earnings per share (p)	(70.7)	13.3	30.6	9.0	116.0
Combined ratio (%)	114.5	106.8	94.4	98.8	90.6
Return on equity (%)	(11.8)	2.2	5.3	1.0	22.5
Dividends per share (¢)	–	13.8	41.9	39.8	35.0
Dividends per share (p)	–	11.1	32.8	29.0	27.5
Share price – high [†] (p)	1,006.5	1,777.0	1,711.0	1,470.0	1,097.0
Share price – low [†] (p)	991.4	1,213.0	1,332.0	997.5	900.5

[†]Closing mid-market prices.

*2019 final dividend was declared but subsequently canceled. See note 29 for further details.

The five-year summary is unaudited.

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