HISCOX

YearEnd22

Hiscox Ltd
Report and Accounts 2022

Hear from senior leaders about the energy at Hiscox and the opportunities ahead.

Read about how Hiscox is using technology to work differently.

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.

As a Bermuda-incorporated company, Hiscox is not subject to the UK Companies Act. However, the material provisions of Section 172 of the UK Companies Act are substantively covered by the Bermuda Companies Act, which is the applicable legislation that the Company is required to comply with under Bermuda law. 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 Financial Conduct 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.

Q&A:

Energy in collaboration

Here at Hiscox, we're working differently. How we collaborate to serve our customers and work with our business partners is changing.

We've created what we call team charters: these are co-created agreed ways of working with each other that balance time in the office with time at home, with the overarching principle of being there for our customers. We're also investing in and using technology in new ways – making it easier for our customers to do business with us, and using data to deliver intelligent underwriting. Although technology can bring our global teams even closer together, we also love connecting in person to share our ideas and energy on moving the business forward – just like some of our Hiscox Re & ILS team featured on the cover of this report.

In the following pages, you'll find a selection of Q&A interviews from senior leaders right across our business. Not only do they talk about what happened in the business in 2022 and what's coming up in 2023, they also talk about what brings them energy.

Our purpose, values, culture and vision

Our purpose

We give people and businesses the confidence to realise their ambitions. To do this we need differentiated products and services, great talent and energised and connected teams. Success is measured in our reputation and financial performance.

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, by our employees as a great place to work and grow for those who are ambitious and talented, and as an industry leader in growth, profits and value creation.

In our 2022 annual global employee engagement survey, which was completed by 88% of employees:

84%
said they felt proud to work for Hiscox.

81%
said they would recommend Hiscox as a great place to work.

76%
said they believe Hiscox has an outstanding future.

During 2022, we:

645
attracted 645 new talented permanent employees.

390
promoted 390 existing employees.

70,000
delivered over 70,000 hours of staff training worldwide.

Our values

We have had a strong set of values for decades and they are incredibly important to us; we talk about them often and they guide our decision-making. We want our values to differentiate us, which is why they play an important part in our strategy and how we operate, in being a business our customers can relate to, and in providing all employees with a work environment in which they can flourish. We periodically review our purpose, values, culture and vision to ensure they are still true to the business and fit for the future.

Our key performance indicators (KPIs)

Financial KPIs

Gross premiums written
$4,424.9m

2022	4,424.9
2021	4,269.2
2020	4,033.1
2019	4,030.7
2018	3,778.3

Net premiums earned
$2,928.2m

2022	2,928.2
2021	2,919.9
2020	2,752.2
2019	2,635.6
2018	2,573.6

Profit/(loss) before tax
$44.7m

2022	44.7
2021	190.8
2020	(268.5)
2019	53.1
2018	135.6

Combined ratio
90.6%

2022	90.6
2021	93.2
2020	114.5
2019	106.8
2018	94.4

Basic earnings/(loss) per share
12.1¢

2022	12.1
2021	55.3
2020	(91.6)
2019	17.2
2018	41.6

Ordinary dividend
36.0¢

2022	36.0
2021	34.5
2020	0.0
2019	13.8
2018	41.9

Net asset value per share
701.2¢

2022	701.2
2021	739.8
2020	689.0
2019	768.2
2018	798.6

Tangible net asset value per share
608.2¢

2022	608.2
2021	648.6
2020	601.5
2019	670.6
2018	726.2

Return on equity
1.7%

2022	1.7
2021	8.1
2020	(11.8)
2019	2.2
2018	5.3

Non-financial KPIs

UK gender pay gap **16.0%**

We measure and monitor the gender pay gap globally so that, by understanding it, we can continue to find ways to reduce it. In the UK, we have been annually disclosing our UK gender pay gap since 2017, and have seen a steady reduction over time in our UK gender pay gap on a mean basis. Improving diversity, equity and inclusion at Hiscox is a high priority, and this year we have also enhanced our ethnicity reporting to disclose all-staff ethnicity data for the first time (see page 59).

2022	16.0%
2021	19.1%
2020	21.2%
2019	26.1%
2018	28.8%

London Market broker satisfaction **79%**

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.

2022	79%
2021	71%
2020	69%
2019	78%
2018	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.

2022	92%
2021	92%
2020	92%
2019	89%
2018	90%

Employee engagement **82%**

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. Improving our employee engagement scores was a strategic priority in 2022 as part of our work around building connected teams with shared values and we are pleased to report our highest score in ten years.

2022	82%
2021	64%
2020	68%
2019	71%
2018	74%

Germany customer satisfaction **96%**

Germany is our largest operation in Continental Europe, and here we ask all customers that purchase a policy to provide feedback on their experience so that we can continue to improve our service. This includes quantitative analysis on their experience with us and qualitative insight on what they were satisfied with, whether they would recommend Hiscox, and any areas for improvement, so we are pleased to have maintained consistently high scores over time.

2022	96%
2021	95%
2020	90%
2019	99%
2018	99%

US customer reviews using Feefo **4.6/5**

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.

2022	4.6
2021	4.8
2020	4.8
2019	4.8
2018	4.7

Our strategy and how we operate

Over the years, we have built a strong reputation as a specialist insurer in our chosen segments. In our big-ticket businesses – Hiscox London Market and Hiscox Re & ILS – we focus on building balanced portfolios through controlled growth and with an emphasis on leading the business we write.

In Retail, where more stable returns have typically offset the greater volatility of our big-ticket businesses, we focus on building a differentiated brand and product offering that customers value.

Volatility exists in every part of insurance, but through a focus on building and maintaining balanced portfolios we create more manageable volatility across the Group and are well positioned to maximise both the profitable, cyclical growth and the structural growth opportunities ahead.

A strategy focused on high-quality growth

The Hiscox Group comprises four businesses facing different opportunities and challenges, but with a common set of capabilities and the capital support required for success.

Balanced portfolio of large and complex risks

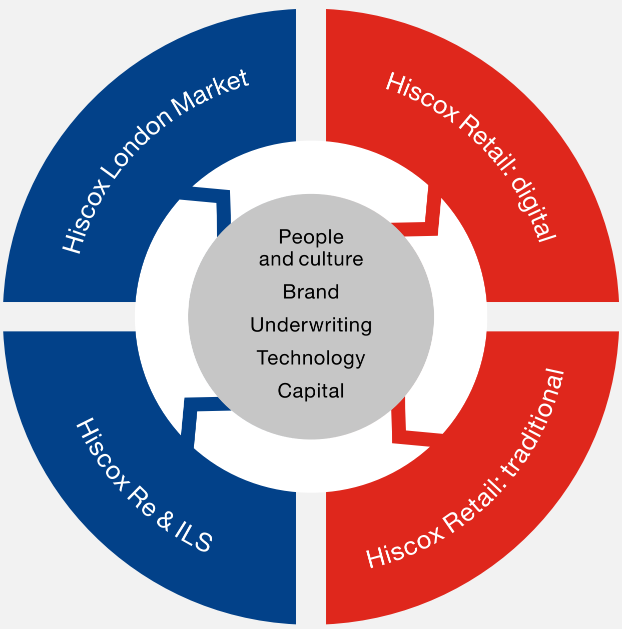
SME and personal lines

- Global risks through Lloyd's platform
- Heritage of deep technical expertise
- Leading the market in applying technology to distribution and underwriting

Delivers profits and capital generation for reinvestment

- Specialist reinsurance capability
- Holistic risk insights
- Expert alternative capital manager

Delivers underwriting profit and capital-light fee income



- Small and micro businesses
- Digitally traded, with low-cost distribution and auto-underwriting
- Partnership management capability through digital connectivity

Significant structural growth opportunity

- Focus on SMEs, not traded digitally
- Leadership in specialist lines
- Long-term broker partnerships

Delivers stable profit generation and growth

"Our strength lies in our mix of business, our brand and culture, our people and specialist expertise underpinned by investments in technology. These hard won attributes, combined with a clear strategy and focus on execution, position us well for the road ahead."

Aki Hussain
Group Chief Executive Officer

Our strategy in practice

Opportunity
There is an abundance of opportunity ahead for Hiscox. In many of our chosen lines and markets, our market shares remain small, giving us plenty of headroom for growth. This is where our specialist knowledge and multi-year investments in digital trading differentiate us.

Innovation
The insurance industry consists of an ecosystem of different types of business; there are the 'wave surfers' for example, who enter the market on the upside of opportunity and retreat when it recedes. Hiscox aims to be a 'game changer' and here for the long term: innovating through long-held market experience and underwriting acumen, embracing technology, taking risks to evolve with and lead market change and being there for our customers.

Growth
Growth is important to us, but not at the expense of profitability. That's why our focus is on maximising the structural growth opportunities ahead as we see them in Retail, and in building out balanced portfolios in our bigger-ticket businesses where we currently see exceptional market conditions.

Volatility
Our business is naturally exposed to volatility. We manage this through our underwriting experience and expertise, our investment in data, and our risk management processes, and we work hard to ensure the risks we take are commensurate with the premium that is paid.

A differentiated offering

Global reach
We are a truly international business, with over 3,000 employees across 14 countries. We invest in local market knowledge and experience to truly understand the markets we operate in and provide relevant products and services. This gives us a unique breadth of expertise, serving customers from sole traders to multinational companies and ILS investors.

Specialist products
In every part of the Hiscox Group, we focus on providing products and services that differentiate us. These range from high-value home insurance and fine art – areas where we have deep foundations to build on – to small business, flood and kidnap and ransom – where innovative products and service set us apart.

Claims experience
Being true to our word is the cornerstone of our claims service. We know that each customer and each claim is different, which is why we have embedded experienced claims teams with specialist product knowledge in every part of our business.

Talented people
The quality of our people is a crucial factor in our continuing success. Their expertise, energy and commitment drive our reputation for quality and professionalism. In return, we aim to provide a work environment that brings out the best in everybody and rewards hard work.

Powerful brand
We have invested significantly over many years to build a recognised and renowned brand. Our distinctive marketing campaigns are developed from a deep understanding of our customers and positively contribute to consumer buying decisions.

Key risks*

The risk	Risk landscape and how we manage the risk
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.	We consider strategic risks in a holistic way, to better prepare our business for emerging threats, shifting trends, and opportunities in the environment in which we operate. During 2022, we have remained vigilant to potential adverse impacts of economic, geopolitical, social, technological and regulatory developments on our Group strategy. Our Group strategy was refreshed during 2022 under new Group Chief Executive Officer Aki Hussain, with a clarity of focus on consistent delivery from our big-ticket businesses, accelerated growth in Retail digital and balanced growth in Retail traded, and has been communicated across the business throughout the year. The external environment remains complex, uncertain and changeable but our robust strategy means that despite the external headwinds there remains tremendous opportunity for Hiscox in each of our chosen segments.
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, and considers emerging external risks such as climate, geopolitical and changing customer trends.	We continue to improve the quality and balance of our portfolios, strengthening our pricing and risk selections, and growing where the opportunities are commensurate with the risk. In 2022, we navigated a set of complex external conditions which amplified underwriting risks. These ranged from geopolitical tensions (notably, the Russia/Ukraine conflict), macroeconomic shifts (particularly increased inflationary pressures in most Western economies), emerging societal trends (such as increased propensity to litigation), and the continued potential impact of climate change. Our active monitoring and enhanced view of economic and social inflation, impact from supply chain disruptions, heightened threat of cyber attacks, and emerging litigation trends, allowed Hiscox to respond promptly, ensuring our pricing keeps pace with costs. We have updated and evolved our view of property exposure risks from natural catastrophes influenced by climate change through our set of realistic disaster scenarios (see pages 46 to 47). Our underwriting exposure remains well within our Board-approved risk appetite levels. We are also investing in the underwriters of the future with the roll-out of our innovative and award-winning faculty of underwriting training academy, helping manage and mitigate underwriting talent risks.

*The key risks to which we refer here, and elsewhere in this document, also constitute the emerging and principal risks required under the UK Corporate Governance Code 2018.

> "The market landscape remains complex and changeable and we have utilised our good risk management practices to protect and create value for customers, employees, our business and investors."

Hanna Kam
Group Chief Risk Officer

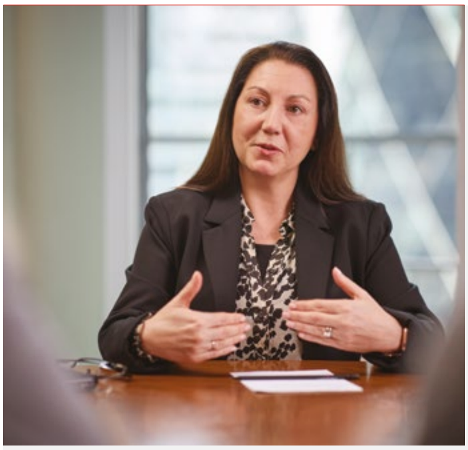
The risk	Risk landscape and how we manage the risk
Reserving risk The Group makes financial provisions for unpaid claims, defence costs and related expenses to cover liabilities both from reported claims and from 'incurred but not reported' (IBNR) claims. Reserving risk relates to the possibility of 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.	Our consistent and prudent reserving philosophy serves to manage the risk of insufficient reserves to cover claims cost and associated expenses. The Group's reserve levels continue to be resilient, and we have completed two legacy portfolio transactions in 2022, which will further limit the potential for reserve volatility. We have responded to the heightened inflationary environment with a detailed review of our key inflation assumptions against emerging experience and explicitly allowed further reserve margins for uncertainty. Close monitoring of developments will continue in 2023.
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.	In 2022, many of our counterparties have faced the same external conditions as we have, and there remains an increased threat of global recession, which would in turn increase default risk. We have closely monitored our counterparty exposures during the year, and while the risk factors have increased, our credit exposures remain within the Group's risk appetite. We have taken into account the potential economic outlook in our decision-making on outwards reinsurance purchasing for 2023.
Market risk The threat of unfavourable or unexpected movements in the value of the Group's assets or the income expected from them. This 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 or tactical asset allocation limits.	The volatile economic environment during 2022, with sharp rises in inflation and accelerated interest rate increases, has enhanced risk in our asset portfolios. Investment losses in the year are largely due to mark-to-market adjustments to the value of bond portfolios, which are unrealised. These have potential for significant upside for 2023. Active decisions over 2022 have made a positive contribution to the investment result, offsetting some of the losses, and the outlook for market (asset) risk is expected to improve.

The risk	Risk landscape and how we manage the risk
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.	We have refreshed our liquidity stress testing during 2022 and the Group remains in a strong liquidity position, with around $1 billion of fungible liquidity, sufficient to cover expiring debt obligations, business plan liquidity requirements, and working capital headroom. Liquidity risk is monitored through the use of a detailed Group cash flow forecast which is reviewed by management quarterly, or more frequently as required.
Regulatory, legal and tax governance This relates to the risk that the business fails to act, or is perceived to have failed to act, in accordance with applicable legal, regulatory, and tax requirements in all of the jurisdictions where the Group operates. The regulatory, legal and tax environment continues to be complex, with frequent changes in rules and expectations which increase complexity in this area.	We monitor the regulatory, legal and tax compliance landscape for emerging changes to local and international laws and regulations in the jurisdictions we operate. The regulatory landscape in 2022 was dominated by the rapid application of a large volume of international sanctions against Russian interests following the invasion of Ukraine, which applied at different points throughout the year across all of our operations worldwide. Our embedded sanctions management processes enabled the compliance team to support the business in quickly responding to the complex and fast-changing sanctions landscape and we also supplemented our sanction-screening processes with additional reviews of the ultimate beneficial owners of a large number of insured risks across multiple business lines. The most significant tax compliance development in 2022 has been the continued movement towards implementation of the OECD's Global Anti-Base Erosion Model Rules (Pillar Two) at a local level. As well as maintaining a watching brief on the evolution of this initiative, we have also worked with expert advisors and industry bodies such as the Association of Bermuda Insurers and Reinsurers and the Association of British Insurers to ensure industry-specific issues are identified and addressed. We seek to work transparently and collaboratively with our key tax authority stakeholders to anticipate the tax impact of both commercial and legislative changes. We invest in proactive engagement with all of our regulators, including through our participation in the annual college of supervisors, hosted by the Bermuda Monetary Authority, which is an opportunity to update all of our regulators together on strategic developments across the Group.

44 180
Read more on risk management in chapter 2 and note 3.

The risk	Risk landscape and how we manage the risk
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, and implications from a legal, regulatory, reputational or customer perspective, for example, major IT, systems or service failures.	Risks from people, process, systems and external events are closely monitored by senior executives across the business. Ongoing competition and retention of talent, heightened threat of cyber attacks and continued growth in hybrid working practices is affecting the operational risk landscape. Our approach to monitoring operational risk has been adapted to enable the business to monitor the risks with a focus on promoting risk awareness and proactive reporting of operational incidents. We continue to embed our operational risk management including our defences against, and response to, cyber threats. During 2022, we reviewed the Group-wide set of crisis management response plans and performed a series of cyber crisis simulations to give our teams first-hand experience of dealing with a situation, and to test our response plans against potential operational disruption. Talent risk is also being actively managed as part of a continued focus on our employee proposition, which has included the introduction of our all-staff share ownership initiative, HSX:26, and which in 2023 will include new ways to develop and map talent across the Group. In addition, in 2022 mandatory monthly all-staff training was supplemented with additional topical modules such as sanctions, cyber security and risk culture throughout the year. We also delivered additional training to underwriting and claims teams on the sanctions developments referred to under the regulatory, legal and tax governance section (see page 10).
Climate change related risk This relates to the range of complex physical, transition and liability risks arising from climate change. This includes the risk of higher claims as a result of more frequent and more intense natural catastrophes; the financial risks which could arise from the transition to a lower-carbon economy; and the risk that those who have suffered loss from climate change might then seek to recover those losses from others who they believe may have been responsible. Climate change related risk is not considered a stand-alone risk, but a cross-cutting risk with potential to amplify each existing risk type.	We monitor climate change related risk through a number of lenses, including underwriting selection, pricing, multi-year view of natural catastrophe risk, asset types, and developments in potential climate litigation. Every year we run a range of realistic disaster scenarios, updated with our in-house climate research (see pages 46 to 47), and we participate in regulatory stress testing exercises. We have introduced investment environmental, social and governance (ESG) dashboards for each of our insurance carriers and we continue to embed our greenhouse gas targets for the Group, which in 2023 will include the development of a supporting action plan.

Business priorities for 2023



"Getting the balance right between risk and opportunity is crucial. Our business priorities for 2023 build on our 2022 achievements, and I'm particularly excited about what technical excellence means for us in the year ahead and how that plays out against a backdrop of retail growth and huge big-ticket opportunity."

Joanne Musselle
Group Chief Underwriting Officer

Business priorities for 2023

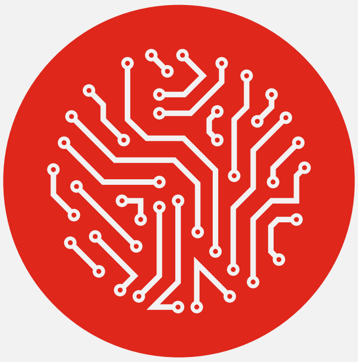
We will balance risk and opportunity in 2023 through a focus on five core priorities.

1 Realising the retail opportunity

Following multi-year investments in technology, in 2023 we will focus on realising the opportunities that exist across Hiscox Retail. This means further leveraging our head start in digital small business insurance by building an SME ecosystem through which to serve this high-growth segment of the economy, and investing in brand. Having finalised systems transformation in the USA, and as new systems continue to come on board across Europe, we are well positioned to cater to changing buying behaviours with efficient customer-focused processes.

2 Managed volatility during big-ticket growth

Hiscox London Market and Hiscox Re & ILS continue to enjoy favourable market conditions in many lines. As in 2022, we will remain focused on leveraging our unique combination of underwriting and digital expertise to grow profitably – particularly in those areas where we have market-leading expertise and experience – while also managing volatility. In addition, we will sharpen our focus on potential new emerging opportunities, for example, around supporting the economy to transition to low-carbon intensity industries.



3
Technical excellence

Technical excellence is a multi-year priority thanks to a long-held focus on active underwriting portfolio management. We continue to focus on portfolio optimisation – addressing lower decile lines through careful management, and clearing the path for growth in top quartile lines, as well as those areas experiencing favourable market conditions. During 2023, we will continue to develop our technical capabilities, insights and tracking mechanisms, and further define our sustainable underwriting strategy.

4
Operational leverage

Steps taken to evolve our operating model during 2022 are already enhancing ownership and speed of decision-making, and we will have a similar focus on operational leverage in 2023. Beyond the rebalancing of our global versus local capabilities, this will mean further establishing technology as a competitive advantage, particularly in Hiscox Retail. It will also mean enhancing our process management capabilities to improve efficiency and effectiveness and increase the speed of execution, to support the Group not only through its next phase of growth, but also as we look to realise economies of scale through a sharpened focus on expense efficiency.

5
Connected and energised teams

We will build on the strong progress made in 2022 to embed hybrid working and develop new employee benefits such as an enhanced sabbatical policy, the introduction of Hiscox days and HSX:26 – our all-staff share ownership initiative. The next stage of employee proposition development will happen during 2023, in line with our ambitions to be an employer of choice within our sector. In addition, we will look to find new ways to develop and map talent across the Group that can support the delivery of our strategy.

Why invest in Hiscox?

A focus on generating sustainable and compounding shareholder returns

We aim to balance consistent and progressive shareholder cash returns with reinvestment into the business to support long-term growth and value creation, and as we face into favourable market conditions in our big-ticket businesses, we have sufficient capital to realise the attractive opportunities ahead.

A unique structural growth opportunity

We aim to grow the business in a way that is organic, sustainable and profitable, and the abundance of opportunity we see ahead supports this continued trajectory. In Hiscox Retail, where we are focused on building scale, our market shares remain modest and the size of the addressable market is huge, giving us plenty of headroom for growth. In our big-ticket businesses, where we now lead on more open market risks, our combination of underwriting and digital expertise differentiates us.

"We are facing some of the most attractive market conditions we've seen in years, with tremendous pricing opportunities in big-ticket lines and a chance to substantially grow our market share in retail. Every part of our business is structurally and financially well positioned to contribute to our continued growth, with solid foundations that can support the weight of our ambitions."

Paul Cooper
Group Chief Financial Officer

155%
total shareholder return over the last ten years.

$1.7bn
returned to shareholders over the last ten years*.

A rated
over ten years of S&P A rating.

50m SMEs
size of the addressable SME market across the UK, USA and Europe.

Over 1.5m
total number of retail customers across the Group.

Two-thirds
Hiscox London Market currently leads over two-thirds of the business it writes.

90%
Hiscox London Market combined ratio below 90% for three consecutive years.

$1bn
Over $1 billion in premium delivered by Hiscox Re & ILS for the first time in 2022.

$269.5m
underwriting profit† in 2022, the best in seven years.

*Based on special, ordinary and Scrip Dividends paid to shareholders since 1 January 2013. Excludes the final dividend proposed for 2022.

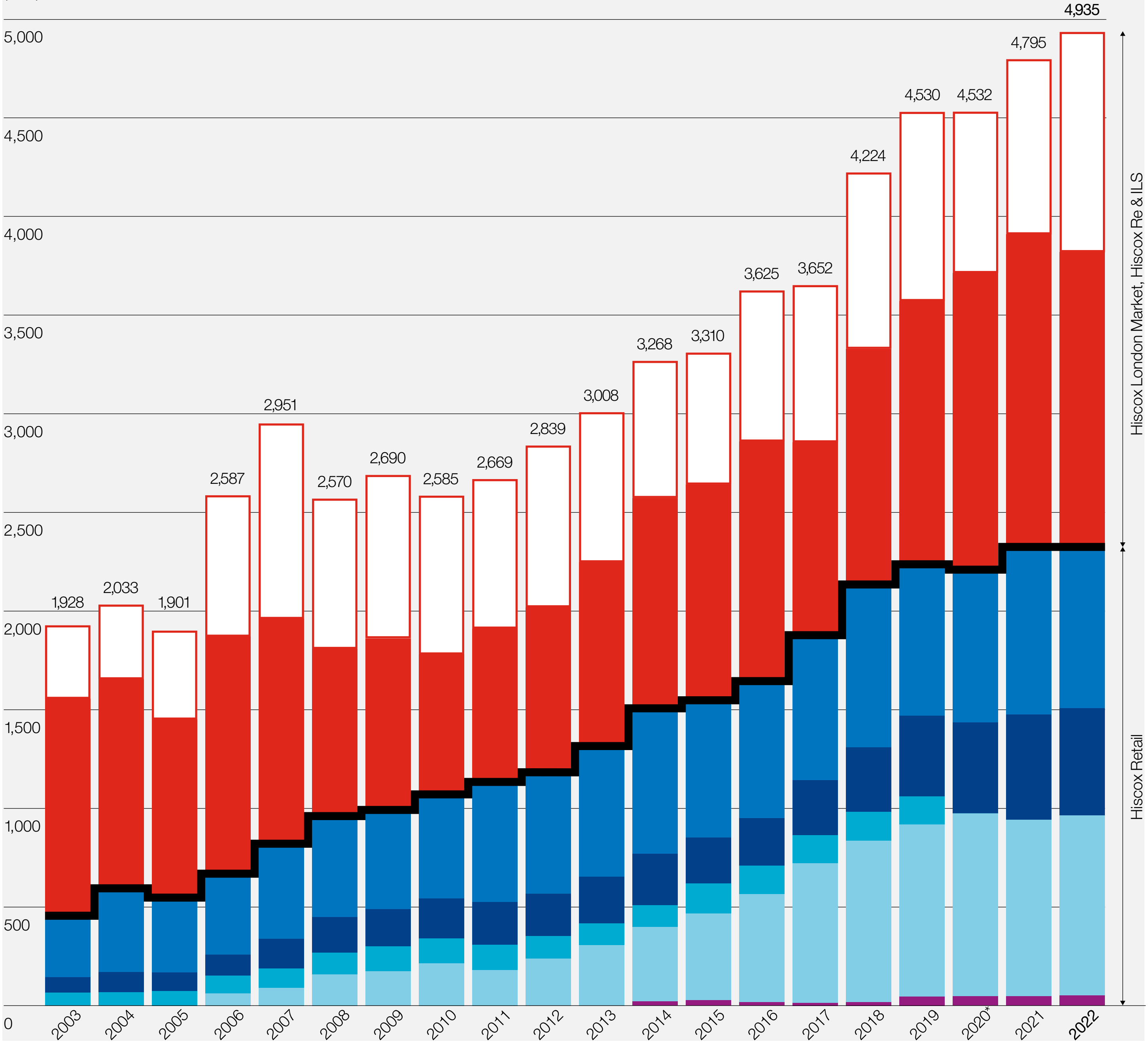
†Underwriting profit is defined as segment income less expenses, excluding investment result, for Retail, London Market and Re & ILS. See note 4 on page 194.

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

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

*2020 restated for Hiscox Special Risks.

Total Group controlled premium
($m)



Q&A:

with Joanne Musselle
Group Chief Underwriting Officer

Writing the future

Shaping the future of underwriting means embracing risk, investing in data and analytics, and taking a fresh approach to training underwriters. >

Joanne Musselle has been with Hiscox since 2002 and held a number of senior positions in both claims and underwriting. In 2019, she became Group Chief Underwriting Officer, driving rigorous standards and using data and analytics to meet the challenges of the future.

Q&A:

with Joanne Musselle
Group Chief Underwriting Officer

Q: You've been with Hiscox for over two decades now – what was it that drew you here in the first place?
A: I'd been busy working for some of the big corporates, always in the technical areas, whether it be on the reserving side, pricing, underwriting or claims. I'd been in Asia for about five years, working for big global insurers, when I got a call about a role at Hiscox. I knew Hiscox from the syndicate side, but back then the retail company was tiny, with premiums of just over £200 million. And there was something in it that really struck a chord. It was like a green-field site. So when I met some of the team, the idea of helping build out the retail side sounded really exciting. And unlike the big global insurers it was already customer-centric rather than product-centric, which really appealed to me. What I didn't know then was that I would be coming for 20 years!

Q: So what is it that's kept you here so long?
A: Lots of things, but first and foremost the values – you can't stay somewhere for that long if the values don't chime with your own. And then it's the people. There is just this rare quality to the people I work with: professional, brilliant at what they do, experts, collaborative. I don't find it hierarchical either. It's genuinely 'best answer wins'. We want to get to the best answer, and that can come from anyone at any time. I love that courage is one of our values, because it gives you license to say: *"I know everybody wants to turn left, but I want to turn right. Can we discuss why..."*

Q: For the past couple of years, you've been the Group Chief Underwriting Officer. What does that involve?
A: It's all about the technical side – the risk selection, pricing, exposure management, reinsurance, product development, wording. We have six business-unit-focused Chief Underwriting Officers around the Group who are responsible for the day-to-day execution of our strategy, but my job is to set that strategy with the Board. It's big things like how much risk we want to take, what new areas we may want to move into, how we structure our propositions and how we think about emerging risks.

I always think that no matter what role you've got, it has three parts to it. The first part is just doing the job well, doing those things I've just mentioned. The second is evolving the role for the future, investing in things like data and analytics. And then the final part, which is the most important, is people: making sure we're engaging, attracting and developing the people around us.

Q: How has Hiscox's approach to underwriting evolved in recent years?
A: It's obviously been a complex period for everyone, and like the rest of the world we've had to navigate our way through some unprecedented situations. Our focus on data and analytics is definitely giving us a better understanding of how a book of business is performing. But I've been really keen not just to respond to the here and now, but really think about where we want to take the organisation. We've spent a huge amount of time and energy on something we're calling 'underwriting evolution'. Part of this is around critically assessing our portfolios. Are we in the right lines? Are our portfolios structurally profitable? How are we assessing emerging risk? Do we need to develop new propositions, new products? I think our portfolios are probably now in their best shape for a long time, but there's always more we can do.

Q: So where else do you think the portfolio should go?
A: Like others in the industry, our commitment to sustainable underwriting means we've got an exclusion strategy – that's focused on eliminating our underwriting exposure to some of the worst carbon emitters, like coal plants, by 2030. But exclusion isn't enough. We've always invested heavily in climate and climate research and we're a big natural catastrophe underwriter, so we've got a lot of technical expertise in that space, and we can utilise that expertise to help build out products around changing risks such as flood. We can also help our customers to navigate the low carbon transition, for example, in big-ticket lines where we're providing liability cover for decommissioning fossil fuel infrastructure or where we're supporting the installation of renewables. We're a niche and specialist insurer, so we're not going to be able to play everywhere, but we need to be challenging ourselves on our role in the transition as best we can.

> There is just this rare quality to the people I work with: professional, brilliant at what they do, experts, collaborative. I don't find it hierarchical either. It's genuinely 'best answer wins'. We want to get to the best answer, and that can come from anyone at any time."

> If you have a house, there's a risk your house might flood. You buy insurance to transfer that risk. But if we can mitigate that risk, if we can help you as a homeowner prevent a flood taking place, that's good for you, it's good for us and it's good for society."

Another thing that plays into this, and it's going to be a big focus of mine in 2023, is what I call 'risk mitigation'. It's something I'm really passionate about. If you have a house, there's a risk your house might flood. You buy insurance to transfer that risk. But if we can mitigate that risk, if we can help you as a homeowner prevent a flood taking place, that's good for you, it's good for us and it's good for society. Reducing that risk also feeds back into our pricing. We've done a couple of things already, like LeakBot – a device that we've given to our homeowners which shuts off the mains if there's a leak. We've also spent a huge amount of time looking at cyber resilience for small businesses, putting in place really practical tools that can empower them to mitigate their cyber risk.

Q: What kind of opportunities are being opened up by advances in data and analytics?

A: One of my jobs is risk selection and making sure that we really understand the risks we underwrite, so we need to utilise data for that to improve our performance. But we're also thinking about how we utilise data to improve the customer experience. For example, you might ask a customer tens of questions when they buy insurance from you, but if some of those answers already exist externally, then can you pull that information together in such a way that results in you asking the customer less questions? And then, also thinking about how to use data and technology to reduce our costs. That's really important, because if we've got lower costs, we can reflect that back to our customers in terms of pricing.

Q: What's your approach to training and developing underwriters?

A: Recently, we've been building out what we call the 'faculty of underwriting'. We spent a lot of time coming up with the capabilities that we think an underwriter of the future will need, but we spent just as much time thinking about how we deliver those capabilities. I'll give you an example. The old model was to sit in training sessions for days on end, staring at PowerPoints. But people these days don't learn like that. They want to learn in quick, bite-sized bursts, so we've partnered with a gaming company to develop training apps that tap into the psyche of competition, presenting underwriting questions in a really addictive way. We hadn't anticipated quite how competitive our people would be, and we've got people doing these modules eight, nine, ten times to keep improving their score which is brilliant.

Q: Outside of work, what gives you energy?

A: My family and friends for sure. I'm a mum of two teenagers, so it's like living in student accommodation at the moment! More personally, I just get a buzz out of a run. I am not an Olympic runner, I'm never going to win a race, but for me, for my mental health, just to clear my mind, I absolutely love it. You don't need anybody else and you can do it anywhere in the world – just put on your trainers and off you go. ■

Chairman's statement

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

Robert Childs
Chairman

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

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

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

And now for the balance of my report.

Performance

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

Although it has been an active year for catastrophes, both man-made and natural, we have made a strong underwriting profit of $269.5 million thanks to the discipline of our teams.

This good performance has been offset by unrealised investment losses on our bond portfolios, but we expect these to unwind as our bonds mature.

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

People

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

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

After 15 years with the Group, Amanda Brown, our Chief Human Resources Officer retired during 2022, and I would like to thank her for her sage counsel and

> I am extremely proud that we are reporting our best employee engagement score for ten years. Not only do the overwhelming majority of our people feel proud to work at Hiscox (84%), they would also recommend Hiscox as a great place to work."

clarity of thought over the years, which I have personally valued and so too has our Board. She has been succeeded by Nicola Grant, who joined us from ING Group and brings a wealth of experience in engaging and leading large workforces across multiple markets.

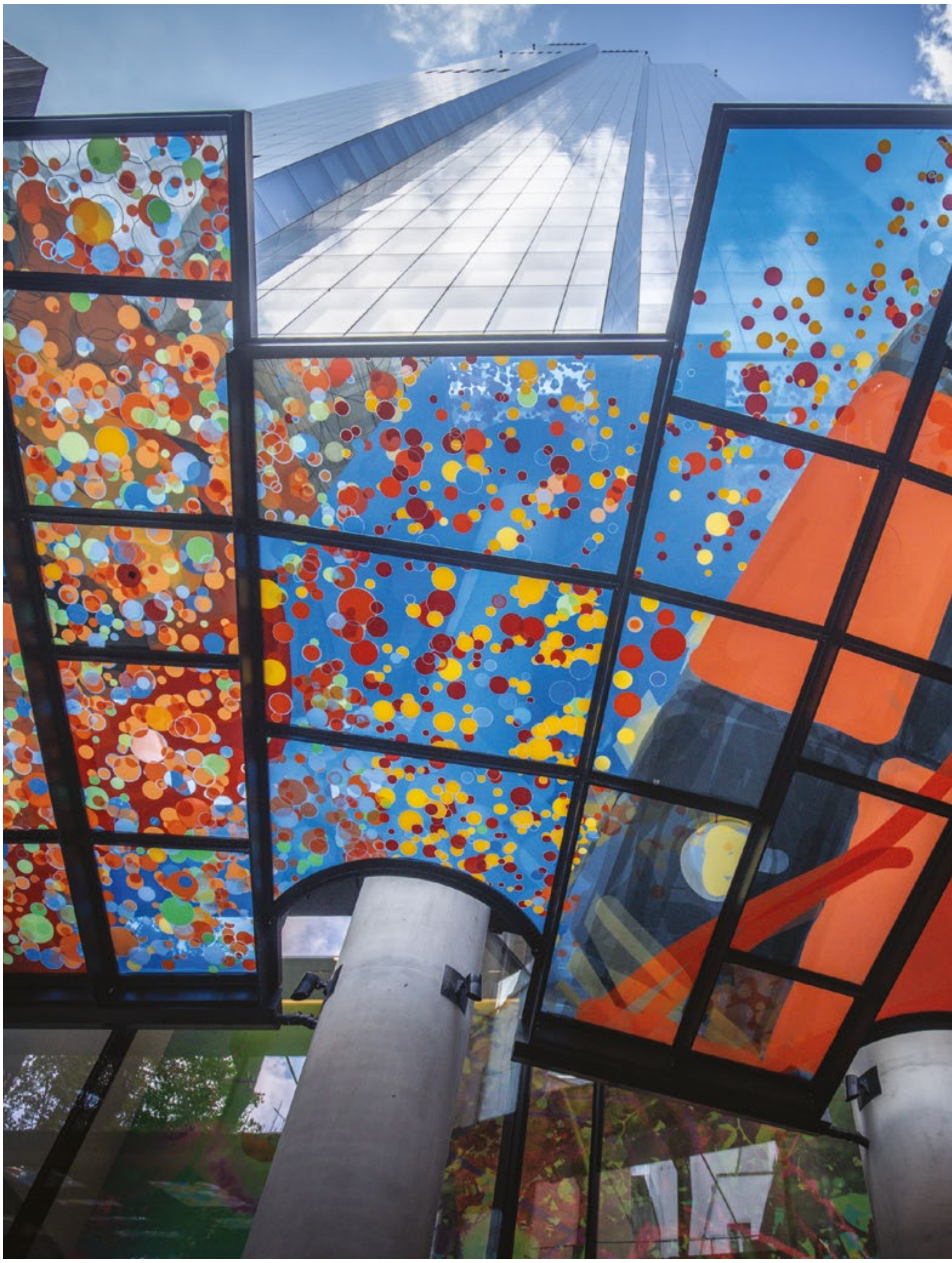
At the same time, Jon Dye joined as Hiscox UK Chief Executive Officer. Jon is a recognised industry leader with solid CEO experience and a fantastic track record of building profitable businesses. His broker relationships, leadership and energy are already making a difference.

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

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

Environmental, social and governance (ESG)

In a year of pronounced geopolitical and macroeconomic challenges, ESG has not been far from our minds and conversations. Aki will cover in his Chief Executive's report the environmental and governance aspects that the business has been thinking about, and the huge amount of work that has been done to support



our colleagues on the 'social' side of ESG. But as Chair of the Hiscox Foundation in the UK, our charitable foundation, I am especially proud that we have donated $1.8 million to good causes this year.

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

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

Outlook

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

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

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

Robert Childs
Chairman
8 March 2023

Chief Executive's report

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

Aki Hussain
Group Chief Executive Officer

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

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

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

Rates

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

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

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

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

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

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

Claims

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

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

The Russia/Ukraine conflict tragically continues to be a live event. The human cost of this event is immense and long-lasting and our thoughts are with

“The reinsurance marketplace is undergoing a seismic shift, with 2022 rates above the 2012 level, and we anticipate material improvement across nearly all lines for 2023.”

An actively managed business

Total Group controlled premium 31 December 2022: $4,935.4m

Period-on-period in constant currency

Small commercial

+5%↑

$1,705m

- Professional liability
- Errors and omissions
- Private directors and officers' liability
- Cyber
- Commercial small package
- Small technology and media
- Healthcare related
- Media and entertainment

Reinsurance

+25%↑

$1,145m

- Property
- Marine
- Aviation
- Specialty

Property

-17%↓

$466m

- Commercial property
- Onshore energy
- USA homeowners
- Flood programmes
- Managing general agents
- International property

Art and private client

+4%↑

$458m

- Home and contents
- Fine art
- Classic car
- Luxury motor
- Asian motor

Specialty

-5%↓

$451m

- Kidnap and ransom
- Contingency
- Terrorism
- Product recall
- Personal accident

Global casualty

+9%↑

$388m

- Public directors and officers' liability
- Large cyber
- General liability

Marine and energy

+12%↑

$322m

- Cargo
- Marine hull
- Energy liability
- Offshore energy
- Marine liability

Hiscox Retail

	2022 $m	2021 $m
Gross premiums written	2,272.1	2,290.0
Net premiums written	1,976.8	1,969.3
Underwriting profit	101.9	34.9
Investment result	(98.9)	26.9
(Loss)/profit before tax	(3.4)	54.9
Combined ratio (%)	94.8	98.9

all those who are directly or indirectly impacted. Hiscox's estimated ultimate loss from all risks in the Ukraine and Russia remains unchanged at $48 million net of reinsurance[1], with just under three quarters of it attributable to Hiscox London Market. The majority of London Market's and all of Re & ILS's reserves comprise incurred but not reported (IBNR) losses. Hiscox London Market exited the aviation hull insurance business in 2018 and political risk/trade credit business in 2017.

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

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

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

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

Hiscox Retail

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

"Hiscox Retail achieved a combined ratio of 94.8%, returning to the 90%-95% combined ratio range a year ahead of the stated target, despite the complex macroeconomic environment."

[1]Including impact of reinstatement premiums.

Hiscox Retail grew gross premiums written by 5.1% in constant currency to $2,272.1 million (2021: $2,290.0 million) and added over 55,000 net new customers. Our commercial lines, which constitute over three quarters of Retail gross premiums written, grew 6.7% in constant currency, with strong momentum across the UK and Europe. We moderated our growth in Hiscox USA as we completed the US broker portfolio repositioning and substantially delivered the US DPD technology implementation. On a go-forward basis, Hiscox Retail grew 6.6% in constant currency. With these programmes complete, Hiscox Retail growth is expected to trend towards the middle of the 5%-15% range in 2023.

Hiscox Retail achieved a combined ratio of 94.8%, returning to the 90%-95% combined ratio range a year ahead of the stated target, despite the complex macroeconomic environment. We expect to operate within this range[2] going forward.

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

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

Hiscox UK

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

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

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

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

Hiscox Europe

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

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

Hiscox Germany, Europe's largest market, grew gross premiums written by 11.3% in constant currency to cross the €150 million mark. Hiscox Germany is a market leader in cyber, and continues to innovate and develop products that meet changing customer needs. In 2022, our German business launched a modular cyber product for businesses with less than €2.5 million in revenue. The modular approach allows customers to add cover as their needs change, and delivers a more efficient claims service should the need arise. After some early success, we plan to roll-out this new product in our other European markets.

The introduction of new core technology in our European businesses remains on track. This multi-year project is being implemented in phases with efficiencies gained as it progresses. Germany and France are already well underway and with Benelux to follow in 2023. The implementation is less complex than in the USA, as it is a country-by-country

[2]Under IFRS 4.

roll-out, and the digital business in Europe is nascent, although the potential is significant. We look forward to seeing significant benefits upon completion of the project not only for the business, in areas such as automation and efficiencies in policy administration, but also for customer experience in terms of market connectivity.

Hiscox USA

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

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

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

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

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

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

> "In the first half of 2023 we will launch a new ESG-focused Lloyd's sub-syndicate. It will be complementary to Hiscox London Market's existing portfolio and will provide access to additional capacity for qualifying clients with positive ESG credentials, such as renewable power generators and energy storage providers."

Hiscox London Market

	2022 $m	2021 $m
Gross premiums written	1,114.9	1,171.4
Net premiums written	735.1	711.5
Underwriting profit	110.0	89.6
Investment result	(54.4)	15.8
Profit before tax	53.0	104.8
Combined ratio (%)	84.8	89.1

commence production in the second and third quarter.

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

Hiscox Asia

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

Hiscox London Market

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

Hiscox London Market delivered a strong result in 2022, despite another active year of large losses. Our focus on building balanced portfolios delivered strong growth in selected lines, namely public D&O, general liability, upstream energy, terrorism and cargo; and at the same time reduced our exposure to what was under-priced catastrophe-exposed business in the binder portfolio. Overall, gross premiums written declined 4.8% to $1,114.9 million (2021: $1,171.4 million), with 3.3 percentage points due to planned reductions in property binder portfolios and the impact of Russian sanctions, which mainly affected our upstream energy and space portfolios. In addition, flood growth was tempered as competitive dynamics changed with National Flood Insurance Programme (NFIP) reducing prices, while we maintained our risk-based pricing approach. We expect competitive dynamics to improve following Hurricane Ian and as the demand for a flood-specific product continues to grow in the US market given recent events. Net premiums written increased 3.3%, as strong rate momentum made retaining more premium attractive. Hiscox London Market delivered a $110.0 million underwriting profit, up 22.8% on the prior period. The combined ratio of 84.8% showed a 4.3 percentage point improvement year-on-year, despite a $40 million net loss from Hurricane Ian and $34 million net loss from the Russia/Ukraine conflict. This is the third consecutive year in which Hiscox London Market's combined ratio has been below 90%, which is a testament to the underwriting focus on creating more balanced and profitable portfolios.

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

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

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

Hiscox Re & ILS

	2022 $m	2021 $m
Gross premiums written	1,037.9	807.8
Net premiums written	268.1	274.2
Underwriting profit	57.6	91.1
Investment result	(34.0)	8.8
Profit before tax	21.5	98.5
Combined ratio (%)	81.6	68.0

focused on the transition to the green economy, such as electric vehicles and renewables.

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

Hiscox Re & ILS

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

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

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

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

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

Investments

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

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

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

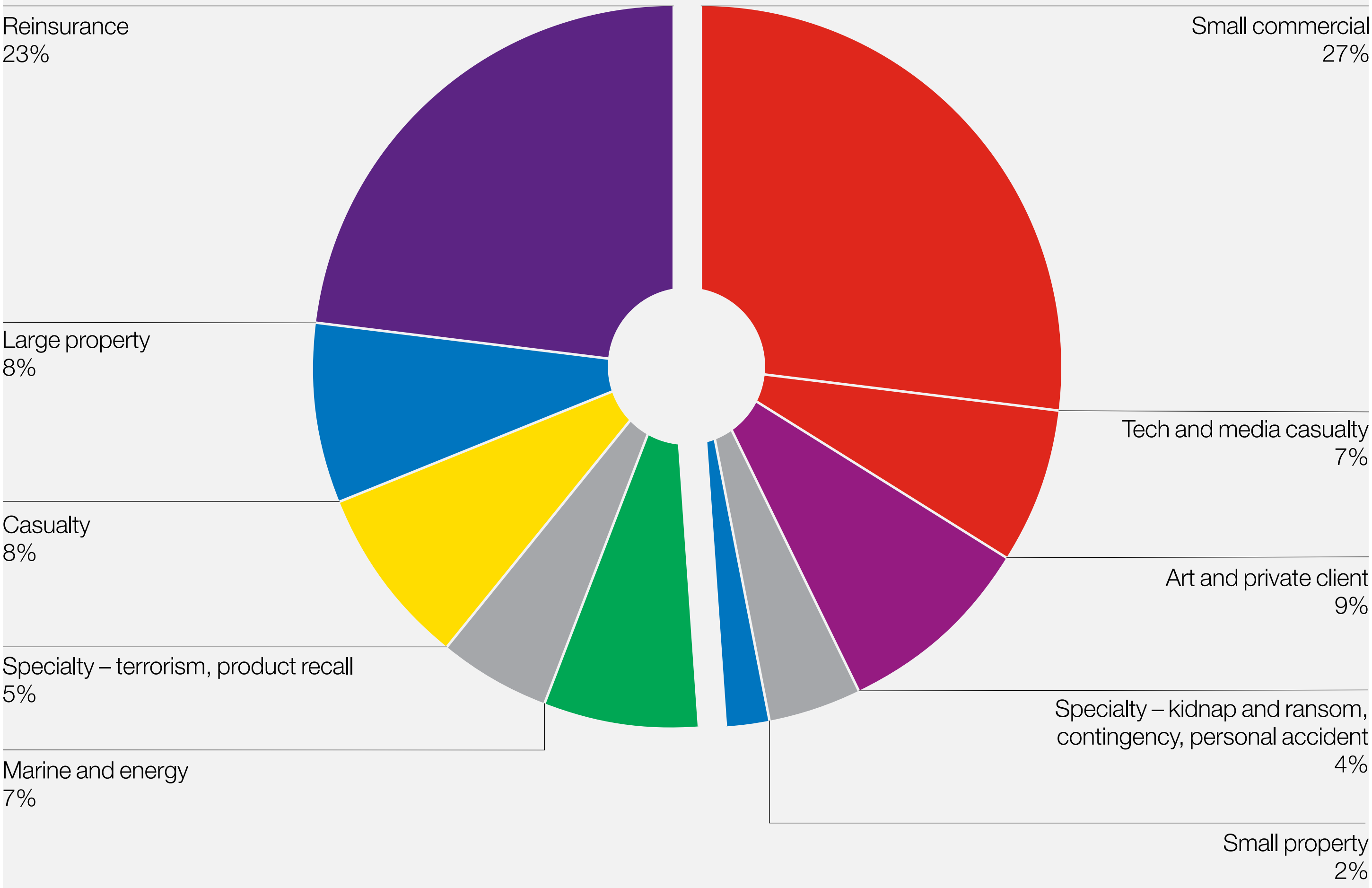
The reinvestment yield on the bond portfolio rose again in the final quarter to reach 5.1% as at 31 December 2022, up from 4.8% at the end of September 2022. The change during 2022 from the starting yield of just 1.0% is transformational for forward-looking returns. The short-dated nature of our portfolio means reinvestments

Strategic focus

Total Group controlled premium for 2022
100% = $4,935.4 million

Big-ticket business
Larger premium, globally traded, catastrophe-exposed business written mainly through Hiscox London Market and Hiscox Re & ILS.

Retail business
Smaller premium, locally traded, relatively less volatile business written mainly through Hiscox Retail.

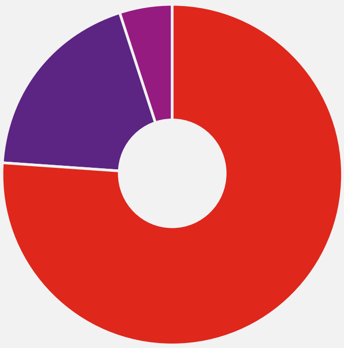


Portfolio – asset mix

Investment portfolio $7.1 billion as at 31 December 2022

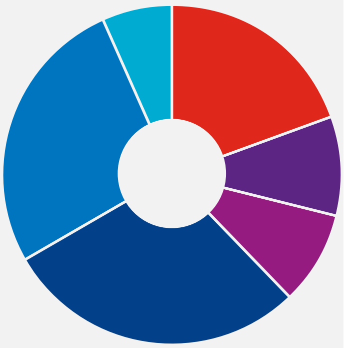
Asset allocation (%)

Debt and fixed income holdings	76.3
Cash and cash equivalents	18.9
Equity and investment funds	4.8



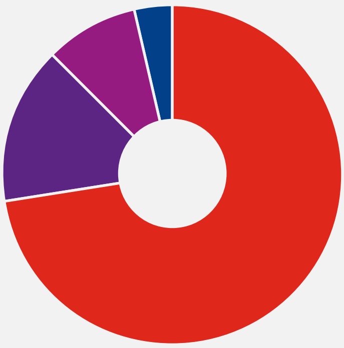
Debt and fixed income holdings credit quality (%)

Gvt	19.6
AAA	9.3
AA	8.9
A	29.0
BBB	26.6
BB and below	6.6



Debt and fixed income holdings currency split (%)

USD	72.5
GBP	15.1
EUR	8.8
CAD and other	3.6



> "The Board believes that paying a dividend is one important indicator of the financial health of the Group. Having carefully considered the capital requirements of the business, the Board has recommended to shareholders for approval the payment of the final dividend at 24.0 cents per share."

are quickly raising the cash coupon component of returns. The portfolio has much improved prospects for investment returns in 2023 and beyond. We have maintained a relatively defensive portfolio coming in to 2023. Duration remains short and credit quality remains high. Risk asset exposures are modest, with no direct exposure to UK commercial real estate, giving us room to add risk should opportunities arise. Otherwise we continue to look to incrementally improve long-term risk and capital-adjusted outcomes through further diversification.

Dividend, capital and liquidity management

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

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

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

The Group's available liquid resources are sufficient to execute against the business plan and act as a buffer to cover opportunities or market events, with fungible liquidity of around $1 billion. During September 2022, the Group issued £250 million of five-year unsubordinated unsecured notes[3]. The transaction was in excess of three times oversubscribed, demonstrating strong sentiment and market confidence in the Group. The issuance of the notes was timed to coincide with the redemption of £275 million unsubordinated debt[4] during December 2022. The funds raised mean that the Group continues to have strong liquidity and appropriate leverage of 20.6%.

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

[3]Fixed rate of 6.00 per cent paid annually in arrears.
[4]Fixed rate of 2.00 per cent paid annually in arrears.

dividend election process and Scrip alternative can be found on the investor relations section of our corporate website, **www.hiscoxgroup.com**.

People

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

At the forefront of my mind is always that people are our greatest asset. The future success of Hiscox depends on our ability to attract, nurture and retain high-calibre talent. A key focus this year has therefore been to enhance our employee value proposition to not only encourage these behaviours but exceed our employees' expectations. I am proud of the benefits that are available at Hiscox such as HSX:26, under which every permanent employee owns a part of the Group through the share grant we launched earlier in the year, and our sabbatical programme which entitles staff with five years of continuous service to an additional four weeks of paid leave. We also refreshed our global diversity, equity and inclusion (DEI) strategy and vision across the Group and put in place a new Group DEI policy to better reflect our intent and approach. In addition, in recognition of the difficult economic circumstances currently facing our workforce we also paid out a cost of living lump sum to our UK, European and Bermudian employees most impacted by the rising costs of energy, food and fuel.

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

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

Environmental, social and governance (ESG)

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

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

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

"Our people believe in the strategy and in our outstanding future. Clearly an engaged employee base bodes well for the drive and energy needed to seize the opportunities ahead and grow our business."

Committee reporting. Our sustainable assets including green/ESG bonds are now over $300 million, with over 5% of bond portfolios in green and ESG-labelled bonds.

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

2023 outlook

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

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

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

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

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

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

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

Aki Hussain
Group Chief Executive Officer
8 March 2023

Q&A:

with Paul Cooper
Group Chief Financial Officer

Opportunity knocks

Hiscox is financially sound and poised for significant growth across its many business units. The challenge for the finance function is to help realise that rich potential. >

Paul Cooper joined Hiscox as Group Chief Financial Officer in May 2022, after working in Chief Financial Officer roles at M&G Plc, Arrow Global and Canopius. Paul had previously served as Finance Director for Hiscox UK and Europe from 2006 to 2011 during a key phase in the Company's growth.

Q&A:

with Paul Cooper
Group Chief Financial Officer

Q: You're what's known in the business as a 'boomerang' – you left Hiscox in 2011 before returning a decade later. What were your impressions of the Hiscox culture the first time around, and has it changed much in the interim?
A: The first time around, the business seemed very entrepreneurial, very ambitious, always trying new things. It had a really strong vision for growing the business, not only in the Lloyd's space, but also across retail and internationally. The people here were a pleasure to work with, and they all wanted to do the best for the Company. There was a real sense that people wanted to get on, that they liked coming to work. I think what's very pleasing on my return is that those aspects still prevail. If anything, they've been reinvigorated under Aki's leadership. He's got loads of energy, and I think he's employed people who have the same vigour. We're all here to deliver on the potential that Hiscox undoubtedly has.

Q: How would you characterise the condition of the Group's finances?
A: The business itself is really well placed. It's a diverse business with a number of different business units and what's pleasing is that they all have very strong potential, they're all very well set in terms of performance and capability. And that's against the background of a strong rating environment. Pricing is going in the right direction, and has been for four or five years, and that looks set to continue. So, the commercial aspect is strong, the culture is strong, and the balance sheet is really strong too. Liquidity is good. With all that in place, my focus can be on how I help the business grow and drive more value, rather than – if I were joining a company undergoing turnaround – shoring up the balance sheet and fixing things.

Q: Where do you see opportunities for growth?
A: Everywhere – absolutely everywhere. As I said, all of the business functions are firing on all cylinders. If you take the Re & ILS business, for example, they're going through one of the most attractive rate environments they've seen in decades. From their perspective, the opportunity for growth is very significant. There's just a question of risk appetite – while those rates are very attractive, you don't want to bet the house on going after them and end up with an unbalanced portfolio. Rates are also continuing to harden in the London Market, so we see real opportunities for growth in that area too.

Then there's our Retail business. Europe is fantastically positioned – it's been growing in all of its six markets. The UK has been re-energised under the leadership of Jon Dye, who knows the market well and has the pedigree to deliver a really profitable business. And then the US business has an amazing opportunity in a significant market that is currently fragmented, under-served and ripe for disruption from a digital perspective. I think we'll see big gains there over the coming years.

Q: Is much change currently required within the finance function?
A: Finance is a function that demands constant change – it's always going to be either a recipient of change because the business itself is evolving, or it needs to be proactively improving itself to help drive developments elsewhere. As a general philosophy, I'm always looking at what we need to change in order to be better. Right now, more specifically, there are some major changes required for the implementation of a new accounting standard called IFRS 17, which is placing an enormous demand on all finance professionals in the insurance industry. There's a significant level of attention on it, and its scale and complexity are not to be underestimated.

Q: In layman's terms, what is IFRS 17?
A: There are a number of elements, but essentially it changes the way that you measure some aspects of the profit-and-loss account and the balance sheet. The biggest part of that is that you now discount your claims liabilities. There's also a lot more presentation and disclosure required. From now on, we will have to report on a much more granular level. The biggest challenge in the short term is that this has placed significant demand on us to make changes to systems and data, which in turn adds to the demands being placed on the finance function. IFRS 17 is a big deal, layered with complexity. It will take time to bed in, but it does mean that, in future, transparency levels will be greater, so our performance will be easier to understand and easier to compare with other businesses.

"We've had quite a sizeable investment in systems and processes in recent years, so the question now is, how do you maximise those? We have more and more data available, and I think there's a competitive edge to be gained by optimising its use and understanding its dynamics."

"The business itself is really well placed. It's a diverse business with a number of different business units and what's pleasing is that they all have very strong potential, they're all very well set in terms of performance and capability. And that's against the background of a strong rating environment."

Q: Aside from that, what have your other major priorities been in your first year in the role?
A: One accomplishment has been to engage more with capital markets and develop a closer relationship with equity analysts. We also essentially refinanced our debt in September, and that's no small exercise. In the grand scheme of things, though, I would say that the big priority is to do things faster: report in a faster time, improve our forecasting capability, improve our management information so that we can better understand performance. We've had quite a sizeable investment in systems and processes in recent years, so the question now is, how do you maximise those? We have more and more data available, and I think there's a competitive edge to be gained by optimising its use and understanding its dynamics. We've made a good start in that space, and it's already showing. There are aspects of performance that we can measure now that we simply wouldn't have been aware of six months ago.

Q: You've come back into the role at an interesting time from a political and macroeconomic perspective. What has that meant for the business?
A: Clearly, the most notable thing has been the Russia/Ukraine conflict. From a reserving perspective, that's all been well covered off, and we've managed our exposures very well. But on the asset side of things, it has stoked inflation, and that's had an impact on central banks, which have responded by driving up interest rates. As a consequence, we've had unrealised losses on bonds in our investment portfolio, which has obscured the strong underlying insurance performance of the business. In time, we're confident that those losses will be reversed. It's clear that markets understand and appreciate that this situation is not permanent, so our share price has not really been impacted.

Q: What will your approach be to developing people within the finance function?
A: That's a really interesting question. Traditionally, and I don't ascribe this only to Hiscox, finance people tend to become technical experts in a particular area – they become the best reserving actuary, or the best capital actuary, or the best financial planning and analysis (FP&A) person. The problem is that at a certain level of seniority, you really need to have a broader, more diverse experience. By necessity, if you want to be a chief financial officer, you've got to know how things work across financial reporting, actuarial, FP&A, capital, reserving, and so on. A management position requires not only a depth, but also breadth of understanding. At the very least, you need to know how to get the right people in to give you the right insights and help you get to the right judgements, and that does require experience. I'd like to see more emphasis placed on people moving around within finance, so that they get that greater breadth of understanding.

Q: Outside of work, what gives you energy?
A: Loads. I love to run with the dog. I socialise with good friends and family. And I watch Arsenal play football – although that creates a different stress! I'm a season-ticket holder. They've been very good recently, but that brings an angst of its own – worrying about when they're going to fall from grace, rather than why they're doing so badly. It's almost worse! ■

Capital

"Our capital resilience is the result of our long-held active capital management approach and, in light of current and upcoming market conditions, positions us well for funding future growth."

Gareth Jones
Interim Group Head of Capital Management

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

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 \$931 million (2021: \$941 million), of which \$331 million was utilised as at 31 December 2022 (2021: \$331 million).

Our key rating agencies, A.M. Best, S&P and Fitch, calculate capital adequacy by measuring available capital after making various balance sheet adjustments. Available capital is compared 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. In December 2021, S&P published details of significant proposed changes to the model used to assess capital adequacy within the insurance sector, for public consultation. However, further rounds of industry consultation with S&P have since been required, and S&P is now expected to publish the conclusions of their additional consultation in the first quarter of 2023, with the intention of introducing the new framework for adoption later in the year should no further rounds of consultation be required. While some uncertainty remains as to the final details of the new S&P model, based on the information which S&P has provided to the industry so far, we expect the Group's rating to remain unchanged. We monitor our capital positions from our rating agencies very closely and factor them into our capital management plans; 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 across all major risk types, it will still be able to meet its regulatory capital commitments. A market loss of this magnitude would be expected to bring about increases in the pricing of risk, so 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

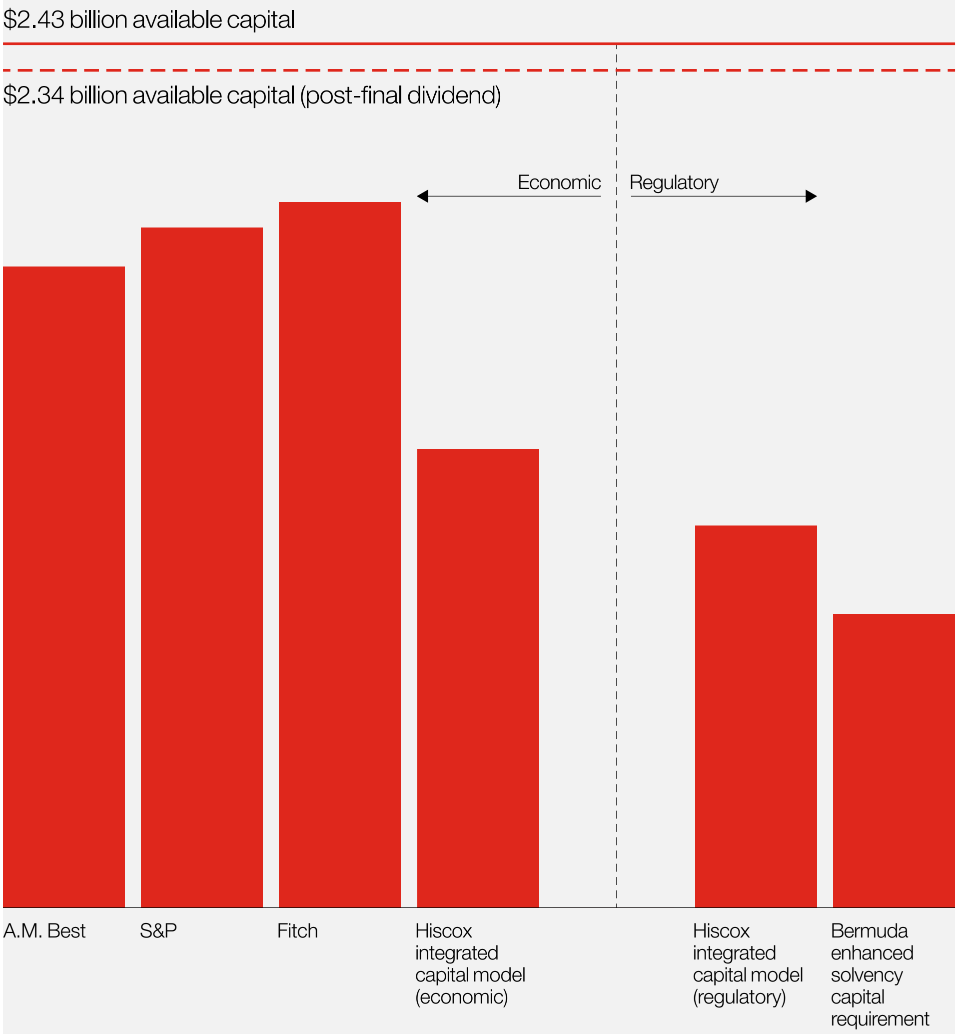
191
The Hiscox businesses are rated 'A' by A.M. Best and S&P and A+ by Fitch. Read more in note 3 to the financial statements.

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

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 2022 BSCR solvency coverage ratio is 197% (2021: 202%). The Group continues to operate with a robust solvency position and expects to maintain an appropriate margin of solvency going forward. In addition, each of the respective insurance carriers holds appropriate capital positions on a local regulatory basis.

Projected capital requirement



Rating agency assessments shown are internal Hiscox assessments of the agency capital requirements on the basis of projected year-end 2022. 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

“Our risk management strategies and processes continue to evolve with our business, and we work hard to ensure we have a strong risk culture throughout the organisation, supported by regular and robust internal training and awareness campaigns.”

Hanna Kam
Group Chief Risk Officer

The Group's core business is to take risk where it is adequately rewarded to maximise returns to shareholders. The Group's success is dependent on how well we understand and manage our exposures to key 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. During 2022, we continued to further 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 at an aggregate level, and define our risk tolerances: the thresholds which would represent a ‘red alert’ for senior management and the Board.

Risk appetites, which are set for the Group as a whole and for each of our insurance carriers, 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.

Risk management across the business

The Group coordinates risk management roles and responsibilities across three lines of defence. These are set out in the model on page 45. 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, cyber, casualty,

Three lines of defence model

1st

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

2nd

Assesses, challenges and advises on risk objectively
Provides independent oversight, challenge and support to the first line of defence. Consists of the Group risk team and the compliance team.

3rd

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.

Risk management framework

Understanding and managing the significant exposures we face.

sustainability, reserving, investments and credit, as well as emerging risks. The Group Risk and Capital Committee and the Group Underwriting Review Committee are sub-committees of the Risk Committee and make wider decisions on risk. More information on these Committees can be found on pages 63 to 65.

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

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.

multi-disciplinary teams from across the business, such as capital, finance and business planning.

The role of the Board in risk management and key developments during 2022

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 continue to evolve. The Risk Committee also engages in focused reviews on our key risks and monitors emerging risks throughout the year. In 2022, additional risks considered include associated risks with Cloud provider concentration, reversal of globalisation trends impacting the complexity and cost of regulatory compliance, and potential disruptions arising from infectious diseases outbreaks. An overview of the processes for identifying emerging risks through the Grey Swan Group is described on page 65. Stress tests and reverse stress tests (scenarios such as those shown on pages 46 to 47, which could potentially give rise to business failure as a result of either a lack of viability or capital depletion) are also performed and reported on to the Risk Committee.

The Risk Committee also provided input into a number of important risk management developments during 2022:

- a risk management maturity framework was introduced during the year to help set the organisation's maturity goals against six key dimensions of risk management, as well as monitor ongoing progress made against these goals. The maturity model has been introduced at both Group and business unit level;
- maintaining a strong risk culture across the organisation is recognised as a key component of effective risk management at

Hiscox. During the year, the Group risk team developed processes to more systematically assess risk culture across the Group considering aspects such as tone from the top, risk transparency, the organisation's use of lessons learned and its ability to identify and respond to uncertainty. As part of this work, an 18-month plan has also been developed to further enhance the organisation's risk culture which will continue to be monitored through the processes developed during the year. These processes now include a risk culture survey for all staff to be completed as part of annual risk management training which has been rolled out;
- there has been a strong focus during the year on performing targeted risk reviews at both Group and legal entity level (including those driven by regulatory developments). Particular emphasis has been placed on performing reviews to assess the risks for the organisation associated with inflation given the current macroeconomic conditions being observed.

The Risk Committee also supports the Board in its review of the effectiveness of the Group's risk management and internal control systems as part of its annual declaration of compliance with the Bermuda Monetary Authority's Group Supervision Rules and via the annual Group-wide risk and control self-assessment and associated second-line review.

The Board, through the Risk Committee, has conducted a robust assessment of the emerging and key risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity, and is satisfied that no material changes to the key 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 Group Chief Risk Officer who reports to the Group Chief Executive Officer and the Risk Committee of the Board.

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.

2022 has seen a continued focus on improving the efficiency of the risk management framework, mainly through the streamlining and automation of repeatable cycles. This creates further capacity for risk reviews and deep-dives and for more support to be available to change programmes across the Group, as well as ensuring appropriate support and challenge is provided to the first line of defence in assessing, understanding and responding to risks associated with the current geopolitical and economic environment.

Casualty extreme loss scenarios

As our casualty businesses continue to grow, we develop extreme loss scenarios to better understand and manage the associated risks. Losses in the region of $75-$825 million could be suffered in the following extreme scenarios:

Event		Estimated loss
Multi-year loss ratio deterioration	5% deterioration on three years' casualty premiums	$235m
Economic collapse	An event more extreme than witnessed since World War II*	$375m
Casualty reserve deterioration	Estimated 1:200 view of a casualty reserve deterioration on current reserves of c.$2bn	$825m
Pandemic	Global pandemic considering broader and alternative impacts than Covid-19	$100m
Cyber	A 1:200 cyber event, such as a major Cloud outage or mass ransomware attack. Includes 'silent cyber' exposures**	$350m
Marine scenarios	Range of events covering collision and sinking of vessels and any resultant pollution	up to $75m
Offshore platform	Total loss to a major offshore platform complex	up to $100m
Terrorism	Aircraft strike terror attack in a major city	up to $350m
Property catastrophe†	1-in-200 year catastrophe event from $280bn US windstorm	$500m

*Losses spread over multiple years.
**'Silent cyber' refers to losses incurred from non-cyber product lines from a cyber event.
†As a point of comparison.

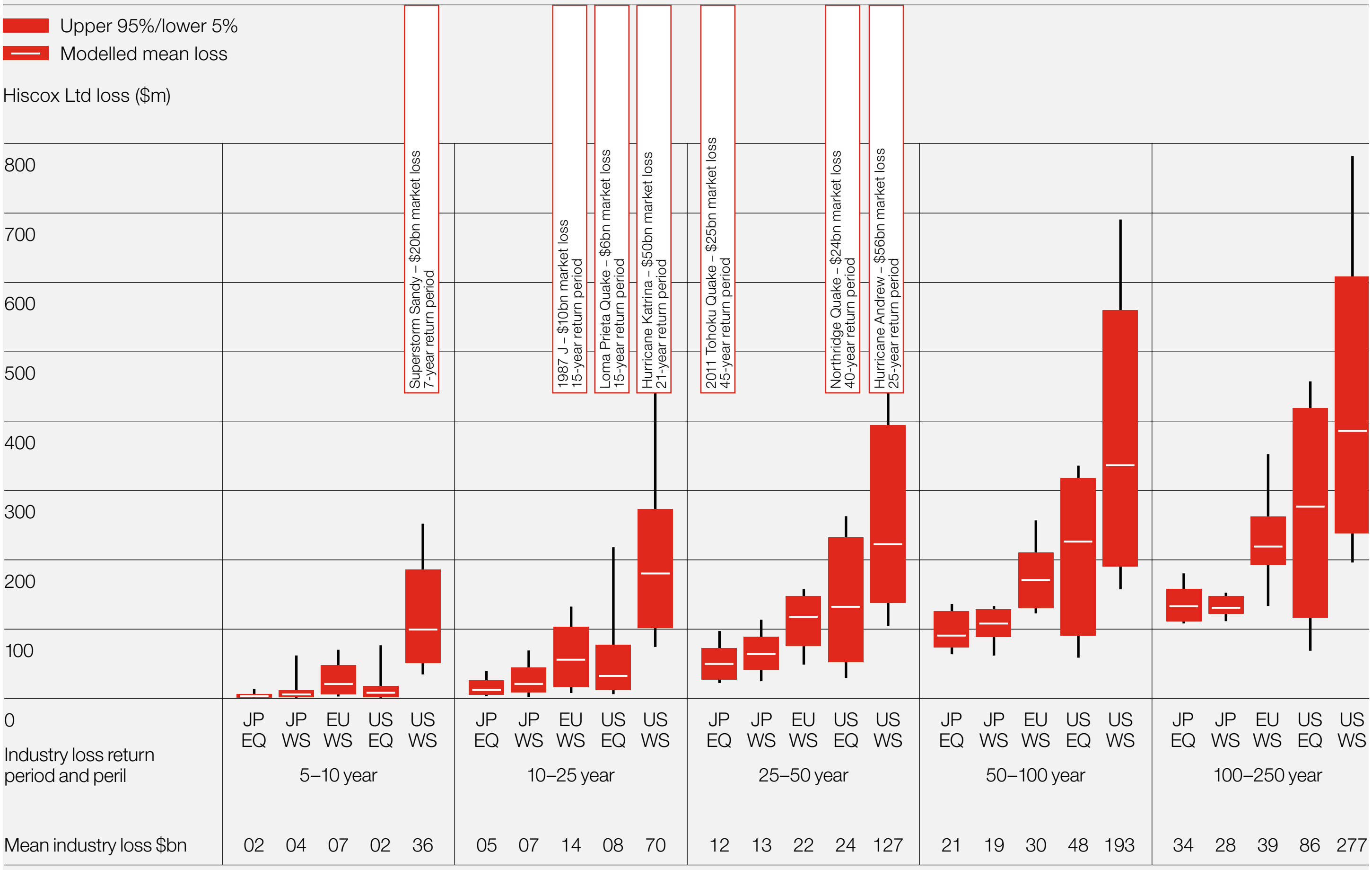
More information on our approach to risk management can be found at hiscoxgroup.com/about-hiscox/risk-management.

8
Read more about our key risks.

Property extreme loss scenarios

Boxplot and whisker diagram of modelled Hiscox Ltd net loss ($m) January 2023.

Stress tests and reverse stress tests are regularly performed and reported on to the Risk Committee of the Board. These include climate-related scenarios such as those shown in the chart below.



This chart shows a modelled range of net loss the Group might expect from any one catastrophe event.
The white on the red 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

Shareholders

Our shareholders value our clear strategy, strong underwriting discipline and sound capital management, and we maintain ongoing engagement with them.

Regular investor dialogue

We maintain regular dialogue with capital markets stakeholders, predominantly via our Group Chief Executive Officer, Group Chief Financial Officer and Director of Investor Relations, who meet with existing shareholders, potential investors and research analysts regularly to discuss our strategy, trading conditions, business performance and other factors affecting our operations.

We run several comprehensive investor roadshows a year in the UK and USA and participate in a range of investor conferences. During 2022, the Company conducted around 370 meetings and met with around 150 investors, representing approximately 76% of our issued share capital.

Financial reporting

We report to the market on Company performance four times per year, providing shareholders with an overview of recent business performance and trading conditions. These are available on our corporate website and as an email alert for subscribers.

Annual Report and Accounts

Our Annual Report and Accounts gives shareholders a more detailed view of the business and includes some additional corporate governance disclosures beyond our statutory requirements.

Annual General Meeting (AGM)

Our AGM provides another regular investor touchpoint. At the 2022 AGM, all resolutions were passed with a significant majority.

Employees

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

Annual employee engagement survey

Our annual employee engagement survey gives all our employees the opportunity to provide honest feedback on how they feel about Hiscox, with the results discussed at all levels including Board level and informing future plans.

Board-level Employee Liaison

Non Executive Director, Anne MacDonald, also serves as the Group's Employee Liaison, working with the Group's employee engagement network to ensure that workforce views are considered in Board decision-making.

Employee networks

Many of our employees are actively engaged in at least one of our 18 employee network chapters, including WeMind, Pan-African, parents and carers, and Pride. These networks are supported by our Directors, who contribute to panel debates and other employee events.

Communication updates

Employees have access to Company-wide 'connected' events, annual 'launch' events and 'box' meetings, many of which are led or attended by our Directors to share news, align on strategy and objectives and celebrate successes.

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 Directors also attend.

Brokers

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

Annual Hiscox broker events

We hold an annual preferred broker summit for our UK brokers, to share insight and expertise, and a London Market broker academy to educate and inform. These events are supported and often attended by our Executive Directors.

Broker satisfaction survey

Each year we measure broker satisfaction with our products and services, including through qualitative broker interviews, with the results shared and discussed at Board level and informing future plans.

Attending key industry events

We participate in key industry events in every part of our broker-facing business, including at Executive Director level. 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 businesses, Monte Carlo, Baden Baden, and RIMS.

Thought leadership

We produce thought leadership that enhances our broker relationships and our position as experts in our chosen areas. In 2022, this included cyber security trends and mitigation strategies, the insurance implications of self-driving cars, the importance of passion in building a small business and the latest online art buying trends.

Customers

We have over 1.5 million retail customers worldwide and providing each of them with products they can rely on is what we are here for.

Customer satisfaction

We talk to thousands of customers each year, through both quantitative surveys and qualitative research – including feedback after they have bought a product or made a claim – which are reviewed by our leadership teams and help to continually improve our offering.

Consumer awareness

We also measure the health of our brand through regular brand tracking surveys which assess consumer brand awareness and perception. These are shared with senior management and inform marketing and sales activities.

Informing our marketing and communications

Marketing and communications activity across our markets is informed by the qualitative and quantitative research we carry out with both existing and potential customers. For example, a current focus in the UK is reviewing our marketing and communications in line with the FCA's new Consumer Duty regulations, where we will also take into account customer insights and feedback.

Customer-focused products and tools

We use a combination of customer insight and claims experience to develop not only our risk transfer products, but also risk mitigation tools. These include our cyber exposure calculator and the Hiscox CyberClear Academy, a NCSC-approved cyber training programme for customers.

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 compliance teams worldwide lead our relationships with our regulators and maintain regular dialogue with them, with involvement from senior management and the Board when required. Regulatory dialogue includes the annual supervisory college, hosted by the Bermuda Monetary Authority as our Group supervisor, which gives an important annual opportunity for us to present a consistent message to all of our regulators on issues of common interest, and in 2022 was attended by members of the Group's senior management team, including all of the Executive Directors.

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 (ABIR) and the Association of British Insurers (ABI). Our Executive Directors are important contributors to this work.

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. In 2022, this included participation in the Prudential Regulation Authority's market-wide General Insurance Stress Test (GIST) in the UK.

Regulatory reporting

The Group and its subsidiaries met all material regulatory reporting obligations for 2022.

Suppliers

Our suppliers are an important extension of our in-house expertise, which is why we aim to work with like-minded businesses that share our purpose.

Robust procurement processes

We want to work with businesses that align with our values and support our goals, and we reflect this in our robust procurement processes. These processes ensure we assess suppliers against a wide range of criteria, encompassing financial stability, culture and ethics, as well as innovation and development. For larger contracts, these processes also include a degree of Executive Director involvement or oversight.

Supplier code of conduct

We expect our suppliers to adhere to high standards in areas such as risk management and compliance, in line with our regulatory requirements, and when it comes to environmental, social and governance issues, such as diversity, equity and inclusion (DEI) and environmental practices.

Active dialogue

We maintain active dialogue with our suppliers to ensure our expectations, ambitions and ways of working remain aligned. This dialogue is often driven by the relationship managers for each contract and supported or facilitated by our Group procurement experts, and for larger contracts will include senior management or Executive Director involvement.

Q&A:

with Stéphane Flaquet
Group Chief Operations and Technology Officer

Tech savvy

The future of technology at Hiscox will see a growing focus on business outcomes, a convergence of approaches between retail and big-ticket and a change of mindset around the management of data. >

After building a career in operations and change leadership, Stéphane Flaquet joined Hiscox in 2010 as Chief Operating Officer for Europe, before moving to London in 2012 to head up the Group technology function. After time as Managing Director for Hiscox Europe, Chief Transformation Officer for the Group and Interim CEO of Hiscox UK, he took on the newly created role of Group Chief Operations and Technology Officer during 2022.

Q&A:

with Stéphane Flaquet
Group Chief Operations and Technology Officer

Q: How has the role and profile of technology at Hiscox changed in recent years?

A: It's been a massive change. Key to this is that the technology function has emerged as a core function across all business areas. Technology can be a source of competitive advantage, but for that to happen you need to have close proximity between the technology team and the rest of the business. If you've got the IT leader in the room for most of the conversation, they'll be able to do a better job of enabling the business. We now have technology leaders sitting within all our business unit leadership teams, which is a big change. You can see it in the way our business unit CEOs now talk about IT in their communications, in their operating plans. It's no longer acceptable for a leader to say: *"I don't understand tech".* A decent understanding of technology is as important as people leadership, business economics, financial management, and so on. Our leaders are willing to learn because they realise the potential of technology to transform their business in so many ways.

Q: How do you ensure you're delivering effective technology change?

A: In IT, delivery times can be quite long, so you need to plan ahead. But as we know, the pace of innovation in tech is increasing and the pace of adoption is increasing even faster, so you also need to be able to iterate super quickly. Getting the balance between the two is really tricky. If you're too short term, you're always on the back foot, trying to respond to business demands. If you're too long term, by the time you deliver something, you're delivering what the business needed three years ago. We need to be having different conversations and using different delivery mechanisms. There is business transformation that requires multi-year planning, but there is other change delivery that can be done in two-week iterations. And this is not a tech conversation, this is an overall business agility ambition.

What those two levels of delivery have in common is the need to always have in mind what the business outcome is that you want to get to. In IT, it's so easy to get caught in the buzz. But the role of IT leaders is not just finding the next cool piece of kit and spending a lot of Hiscox's money on it. It's about using tech in a way that makes our business better – that is the really cool thing. That's where the proximity between the technology team and the rest of the organisation is so key. IT is a means to an end. It's not a goal in itself. So focusing on tangible business outcomes is critical. That has been front of mind as we successfully re-platformed our retail businesses in the UK, the USA and now Europe.

Q: Is there a difference in your approach between retail and big-ticket business?

A: Historically, technology was more important in retail than in big-ticket – high-volume, low-margin business is where tech traditionally had a key role to play. But what we've seen over the past few years is a convergence in the use of technology between retail and big-ticket. For example, one of the great successes is how the London Market is now distributing some of its products directly to the local producers using the kind of application programming interface (API) and pricing capability you would expect in retail. Historically, in big-ticket it's all about technical excellence, pricing, analytics, modelling, and you now see a lot more of that going into the retail space. I think we're seeing a real meeting in the middle where these previously very different business types are using the same core capabilities. Having a strong enterprise architecture function that is able to connect the dots, drive re-use and economies of scale is even more critical in that context of convergence.

Q: What is your vision for how the use of data should change in the coming years?

A: Insurance has always been about

> IT is a means to an end. It's not a goal in itself, so focusing on tangible business outcome is critical. That has been front of mind as we successfully re-platformed our retail businesses in the UK, the USA and now Europe."

> What we've seen over the past few years is a convergence in the use of technology between retail and big-ticket. For example, one of the great successes is how the London Market is now distributing some of its products directly to the local producers using the kind of API and pricing capability you would expect in retail."

data and will always be about data, but technology transformation can dramatically impact the way we use it and the value we get from it. We currently have lots of pockets of good practice all across the organisation, so now we're focusing on connecting the dots between them. So rather than looking at underwriting data, or claims data, or marketing data, or brand awareness data, we want a 360° view of all those different components. That is only going to be achieved if we start treating data as a product, rather than as a by-product of any particular activity. We need people to own that product, take responsibility for its integrity and accuracy and then make it available to other data owners. That's a completely different mindset and is one of the capabilities that we are building.

Q: How do you see technology in the workplace evolving?
A: It's obvious to say, but our relationship to technology, both personal and professional, has fundamentally changed in the last few years. I think one of the few good things about the pandemic is how the adoption of technology has accelerated. During 2022 we moved into our new office here in London, and now I enter the building using my phone, book a desk using an app, order lunch using an app. We don't have phones on our desk, I hardly have papers anymore, I just carry my laptop and my iPhone and this is my life and I can do everything that I want with this. But I still think there is more we can do. We need to recreate the same simplicity and convenience for our people that we all have in our personal life, and we need to offer our customers the same seamless experience. This is a never-ending journey because our expectations as customers are constantly rising, and rightfully so.

Q: Beyond your technology brief, what are your other priorities?
A: One major priority is to strengthen our operational capabilities in retail. Retail is the fastest growing part of our organisation, and to support that growth we're focused on making sure we have all the right capabilities in place, dialled up to the appropriate level: from the voice of the customer, to management information, strategy leadership, automation, process management, technology enablement, all of that. We also currently have very distinct retail businesses, and they're all operating slightly differently, so an element of operating model convergence is needed and I think technology can play a really exciting role in that.

Q: Outside of work, what gives you energy?
A: Now that my kids have mostly left the nest, the best thing that happened to me over the last three years is that I got a dog for the first time, a chocolate Labrador called Mosey. He has changed my life completely. I can't believe that I've lived for almost 47 years of my life without a dog. What a waste!

Environmental, social and governance (ESG)

"The challenges of ESG are not easy to solve, which is why I like the pragmatic approach that Hiscox is taking to address them. That means operating responsibly, but also working with others to drive meaningful progress."

Jon Dye
Chief Executive Officer, Hiscox UK and Sustainability Steering Committee member

Our approach to environmental, social and governance standards (ESG) is shaped by a clearly stated ambition: to be here for the long term, for our customers, colleagues and communities, operating in a sustainable way for the future.

We take our role in the world seriously and want to play a responsible part in society, but we are pragmatic about what that looks like. The language of ESG is rapidly evolving, but the issues it encompasses are not new, and in many cases our responses to them are already embedded in our business. For example, having a deep understanding of climate change through catastrophe modelling and research is a fundamental part of our business and an area where we want to be market leading. In other areas, progress comes through regulation or public interest, but we also see future opportunities to innovate and serve our customers.

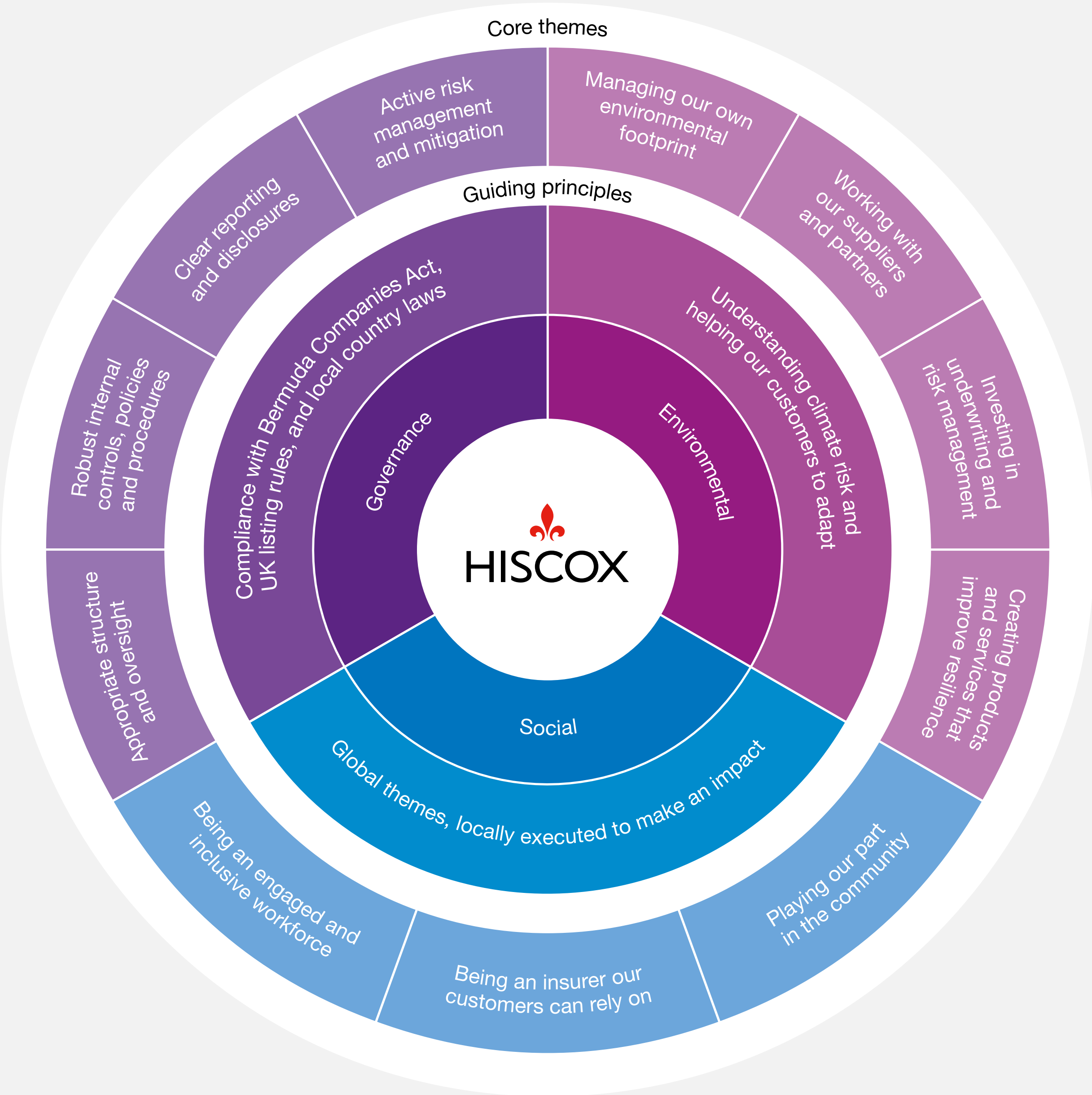
To achieve our ambition, we focus on making positive and persistent improvements to our approach across ESG. For example, during 2022, we established an ESG data provider within our London Market business, which over time will support underwriting decisions in big-ticket lines and help us factor ESG into our future exposures. We also saw a 28% decrease in our operational greenhouse gas (GHG) emissions in 2022 against our 2020 baseline year, and realised the fifth year of incremental improvement in closing our UK gender pay gap, which is now at 16.0% on a mean basis.

Our progress over the past year was reflected in our MSCI ESG rating, which was upgraded from A to AA, and in our CDP score, which improved from a B- in 2021 to a B in 2022.

We will continue to build on this progress during 2023, through a combination of one-off programmes of work and ongoing engagement on key issues. This will include:
- publishing a low-carbon transition plan in line with UK regulatory requirements;
- further defining the Group's ESG risks and opportunities through ESG materiality mapping;
- continued industry collaboration on issues including the measuring of underwritten emissions.

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.



Environmental

We carefully manage our environmental impact and work with our customers, suppliers and business partners to respond to the changing climate.

This includes finding ways to limit our own consumption of materials such as energy and water and reducing the amount of waste we generate. It also means investing in areas such as research, catastrophe modelling and new technologies that improve our underwriting capabilities and ensure we are well placed to help our customers when it comes to managing the risks they face.

ESG exclusions policy

Our ESG exclusions policy officially came into force at the start of 2022 and is an important pillar of our environmental ambitions. This policy sets out our ambition 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 in the ANWR region; oil sands; and controversial weapons such as landmines.

Since then we've made solid progress across underwriting, reinsurance and investments:

- in big-ticket underwriting, we now monitor all risks according to their ESG profile and continue to decline and non-renew risks in line with our exclusions policy. Through this same tracking, we are able to monitor the positive risks we are supporting such as wind and solar energy, and electric vehicles;
- in reinsurance, we have exited from all business where 30% or more of subject premium derived from restricted areas, and we continue to monitor our portfolio composition against our ESG focus areas, capturing programs declined for ESG reasons in regular internal reporting;
- in investments, we have shared the policy with our fund managers, to ensure it is considered in relation to pooled funds, and we have eliminated our investment exposure within all directly-held bonds that fall outside of appetite. In addition, we have now fully embedded ESG into our investment processes: net-zero wording is now in all core bond investment manager mandates; we have enhanced the ESG credentials of our emerging market bond portfolio; and an investments-focused ESG dashboard is now a regular feature of Investment Committee reporting. Our sustainable assets including green/ESG bonds are now over $300 million, with over 5% of our bond portfolio in green or ESG-labelled bonds.

GHG reduction targets

Central to our efforts to manage our environmental impact is an ambitious set of targets for the reduction of GHG emissions. We announced our new Group-wide GHG targets with our 2021 full-year results, and during 2022 we have focused on embedding them. These targets, which were developed using SBTi methodologies and designed to align with a 1.5°C net-zero world by 2050, are:

- reduce our Scope 1 and 2 emissions by 50% by 2030, against a 2020 adjusted baseline*;
- reduce our operational Scope 3† emissions by 25% per full-time equivalent (FTE) by 2030, against a 2020-adjusted baseline*;
- transition our investment portfolios to net-zero GHG emissions by 2050. The aim is that more than 25% of our corporate bond portfolio by invested value will have net-zero or Paris-aligned targets by 2025, and more than 50% by 2030;
- engage with our suppliers, brokers and reinsurers on our net-zero targets and on their plans to adopt Paris-aligned climate targets;
- monitor emerging standards around underwritten emissions and collaborate across our industry on their development, aligning with best practice in this area as it emerges.

In 2022, we took some important first steps in response to these targets:

- we completed a half-year footprint in order to provide a mid-point for assessing emissions and further enhance our data collection processes;
- we conducted a deep-dive on renewable electricity usage across the Group, and identified key sites to focus on for continued adoption of renewable electricity in support of our Scope 1 and 2 target;
- we made good progress towards the first of our interim targets for transitioning our investment portfolio, with approximately 20% of our corporate bond portfolio having net-zero/Paris-aligned targets as at year-end.

We will build on this further with the development of a low-carbon transition plan for the Group, in line with UK regulatory requirements.

*Baseline year adjusted in light of Covid-19-related lockdown measures,to reflect a more normal year in terms of business travel etc.
†Operational Scope 3 emissions predominantly consist of purchased goods and services and capital goods, and business travel (air, rail and car travel).

Water and waste

	2022	2021	Year-on-year change
Water usage	10	20	-50%
Waste generated	49	34	44%

GHG emissions*

Scope	2022 (tCO_2e)	2021 (tCO_2e)	2020 (tCO_2e)	2022 vs. 2020 baseline
Scope 1	**786**	678	615	28%
Scope 2 (market-based)	**927**	866	1,111	-17%
Total Scope 1 and 2	**1,713**	1,544	1,726	-0.8%
Scope 3 (operational)	**19,298**	17,116	27,461	-30%
Scope 3 (operational) per FTE	**5.83**	5.80	8.91	-35%
Total operational footprint	**21,011**	18,660	29,187	-28%
Scope 3 (non-operational)	**9,862**	8,458	7,046	40%
Investments	**127,497**	125,156	135,275	-6%

Our Scope 1-3 emissions excluding investments are independently verified to a reasonable assurance level, with investment emissions verified to a limited assurance level. A copy of the verification statement can be found at **hiscoxgroup.com/responsibility/environment**.

Environmentally-focused commitments

ClimateWise

Paris Agreement 2015

Principles for Responsible Investment (PRI)

Principles for Sustainable Insurance (PSI)

Sustainable Markets Initiative

Task Force on Climate-related Financial Disclosures (TCFD)

Total GHG emissions inventory

We continue to focus on managing and minimising our carbon footprint as a Group. While we saw a 28% decrease in our operational GHG emissions in 2022 against our 2020 baseline year, our total operational footprint increased by 13% in 2022 when compared to 2021.

While some of this increase relates to emissions arising from one-off capital goods spend – such as those generated as a result of our London office move – there are other areas where we have seen an increase in emissions due to continued improvements in data accuracy as we continue to enhance our data collection processes.

We also saw an increase in upstream transport and distribution emissions, as we have this year started to account for transport emissions related to purchased goods and services and capital goods as part of our Scope 3 footprint.

Business travel emissions this year also reflect the expected rebound in travel-related emissions that we reported last year, as work patterns continue to normalise.

*GHG emissions are calculated according to the Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (revised edition). Hiscox uses market-based Scope 2 emissions for reporting in line with its new GHG reduction target. Operational Scope 3 emissions cover operational suppliers (office and other related services), capital purchases, fuel and energy related activities, waste generated in operations, business travel, employee commuting and remote working. Non-operational emissions are those that do not directly contribute to the emissions associated with daily business activity, including non-operational purchased goods and services and transportation and distribution.

An assessment across all categories of Scope 3 emissions has taken place and the material categories are disclosed as part of our full GHG inventory (above). Note some emissions totals may not tally due to rounding.

The investment emissions are calculated using the Enterprise Value Including Cash (EVIC-based) method of attributing financed emissions to investors, and calculations use MSCI's carbon data[†] as the ultimate source. Our 2020 operational emissions baseline for business travel has been restated to project pre-Covid travel patterns.

A copy of our Streamlined Energy and Carbon Reporting (SECR) GHG emissions table can be found on page 63.

[†]Although Hiscox's information providers, including without limitation, MSCI ESG Research LLC and its affiliates (the 'ESG Parties'), obtain information (the 'information') from sources they consider reliable, none of the ESG Parties warrants or guarantees the originality, accuracy and/or completeness, of any data herein and expressly disclaim all express or implied warranties, including those of merchantability and fitness for a particular purpose. The information may only be used for your internal use, may not be reproduced or redisseminated in any form and may not be used as a basis for, or a component of, any financial instruments or products or indices. Further, none of the information can in and of itself be used to determine which securities to buy or sell or when to buy or sell them. None of the ESG parties shall have any liability for any errors or omissions in connection with any data herein, or any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

Charitable giving and volunteering

Hiscox Foundation

Hiscox Gives

Social

In everything we do, we strive to be a good employer, a trusted insurer and a good corporate citizen. Our social responsibilities help to inform our customer and claims philosophies, our strategy for charitable giving and our employment practices.

Being a customer-centric business

Being an insurer our customers can rely on is part of our reason for being, and we continue to focus on providing easy-to-understand products that suit specific customer requirements. For example, in Hiscox London Market we enhanced our malicious attack offering with resilience training during the year; in Hiscox ILS we launched a special opportunities portfolio in response to market dynamics; and in the UK we are adapting to the FCA's new customer-focused Consumer Duty regulations.

Our approach is to consider not just the transfer of risk through insurance, but also how we can help our customers mitigate the risks they face. In cyber, we do this through the training and education we offer as part of the Hiscox Risk Academy, and in home insurance we do it through our partnership with LeakBot, an early leak detection system that we've provided to over 8,000 Hiscox UK insured homes to date. You can read more about our approach to risk transfer and risk mitigation on pages 18 to 19.

During the year we also reflected on the impact on our customers of the rising cost of living, leading to enhanced vulnerable customer training in the UK and the development of a cost of living dashboard through which to regularly monitor changing customer behaviours. The work we do with customers is recognised in our strong customer satisfaction scores for the year (see page 5).

Supporting our communities

Supporting the communities in which we work has been part of our DNA for decades, and our charitable foundation, the Hiscox Foundation, dates back to 1987. We focus our charitable giving around three strategic pillars:

- social mobility and entrepreneurship;
- protecting and preserving the environment;
- causes our people are passionate about.

During 2022, we donated over $1.8 million to good causes and our people spent over 1,400 hours volunteering. This included targeted donations that recognise specific events such as the Russia/Ukraine conflict and the floods in Pakistan. During the year, in recognition of the rising cost of living and the increasing costs that charities are facing, we increased our donations to our UK multi-year partners in line with inflation for the 2022/23 financial year.

Being a great place to work

Building an engaged and inclusive workforce was a strategic priority for us in 2022. We made great strides in reviewing our employee proposition and introduced new rewards for colleagues including our share ownership scheme, HSX:26. We also introduced 'Hiscox days' – an additional two days for employees to do whatever matters most to them. A new sabbatical policy came into force, which provides four weeks' paid leave for every five years of service. These changes were the result of a renewed focus on listening to what employees want, and most importantly responding to it. The impact is reflected in our 2022 employee engagement results – our best in ten years (see page 3).

We also continue to progress our diversity, equity and inclusion (DEI) efforts, as we strive to build teams that are as diverse as the customers we serve. We currently have 18 employee network chapters, including a new 'global abilities' network focused on disabilities and neurodiversity, which we introduced during 2022. More information on our approach to DEI can be found on page 95 to 97.

We have been an accredited Living Wage employer in the UK since 2019, but in 2022 we recognised the additional challenges of high inflation levels and an increased cost of living on our people. As a result, we made one-off cost of living lump sum payments of £1,500/$1,500/€1,500 to the lowest-earning portion of our workforce – benefitting 38% of our people.

Governance

As a global insurer, good governance practices are essential to our day-to-day business of serving customers and paying claims. That means having appropriate internal controls, policies and procedures, and structures and oversight, but it also means ensuring all employees are accountable for their actions and empowered to raise their hand if something goes wrong. As a Bermuda-domiciled, UK-listed business, we comply with the Bermuda Companies Act, the UK listing rules and local country laws in each of the locations where we operate.

More information on our governance practices – including as they relate to ESG and climate-related issues – can be found in the risk management, TCFD and corporate governance sections of this report.

Social commitments and partnerships

Black Insurance Industry Collective (BIIC)

SEO London

Insuring Women's Futures

UK Living Wage employer

Gender/sex diversity at 31 December 2022

	Number of Board members	Percentage of the Board	Number of senior positions on the Board (CEO, CFO, SID and Chair)	Number in Executive Management*	Percentage of Executive Management*	Percentage of Executive Management and direct reports†	Percentage of all employees
Men	7	64%	4	7	58%	53%	49%
Women	4	36%	–	5	42%	47%	50%
Not specified/prefer not to say	–	–	–	–	–	–	<1%

Ethnic diversity at 31 December 2022

	Number of Board members	Percentage of the Board	Number of senior positions on the Board (CEO, CFO, SID and Chair)	Number in Executive Management*	Percentage of Executive Management*	Percentage of Executive Management and direct reports†	Percentage of all employees
White British or other white (including minority-white groups)	10	91%	3	9	82%	83%	74%
Mixed/multiple ethnic groups	–	–	–	–	–	1%	2%
Asian/Asian British	1	9%	1	2	18%	4%	9%
Black/African/Caribbean/black British	–	–	–	–	–	6%	7%
Other ethnic group, including Arab	–	–	–	–	–	–	3%
Not specified/prefer not to say	–	–	–	–	–	6%	4%

*For the purposes of the UK Listing Rules, Executive Management includes the Group Executive Committee (the most senior executive body below the Board) and the Company Secretary, excluding administrative and support staff.
†For the purposes of the UK Corporate Governance Code, senior management (which for consistency we refer to as Executive Management in the tables above) includes the Group Executive Committee and the Company Secretary and their direct reports, excluding administrative and support staff.

Our approach to gender/sex and ethnicity data collection and reporting is consistently applied in the countries where we collect this data, according to local law and custom. We use the Group's online HR management system, Workday, to collect and securely store this data.

In all countries, employees can choose to self-report their gender/sex or specify that they 'prefer not to disclose'.

In the countries where we collect ethnicity data (currently UK, Bermuda, USA and Guernsey), employees can choose to self-report their ethnicity, specify that they 'prefer not to disclose', or not provide an answer at all (leave blank).

The self-reported ethnicity options provided in each country are aligned to the options provided in that country's government census, and have been collated corresponding to the UK Listing Rules' prescribed categories. Any ethnicities reflected in a country's census that do not align with one of the prescribed categories in the table were included in the 'other ethnic group' row data.

The data reported here includes the self-reported data provided by our employees in the countries where we collect the data. For any data categories where an employee has not provided a response, these employees are counted in the 'not specified/prefer not to say' row. We do this so that, to the best of our abilities, all employees in the countries where we collect the data are accounted for.

The data does not include employees in countries where we do not collect the data.

Note: some totals may not tally due to rounding.

Task Force on Climate-related Financial Disclosures (TCFD)

Reporting against the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) is a requirement of the Financial Conduct Authority (FCA) for all premium-listed firms on a 'comply or explain' basis.

We have been reporting against the TCFD-aligned ClimateWise Principles since 2019 and are public supporters of TCFD. Our annual climate report sets out our approach to climate-related matters in every part of our business, including from a governance, risk management, operations, underwriting, investment, and marketing perspective. It is our richest source of climate-related information and expands on the information set out below, so for more information go to: **hiscoxgroup.com/2022climatereport.**

Governance

Structure and oversight

We have an established and embedded governance structure for climate-related matters, with robust and rigorous processes for identifying, measuring, monitoring, managing and reporting climate-related matters (including climate-related risks and opportunities) across the Group. This spans from an operational level up to the Sustainability Steering Committee, the Risk Committee of the Board, and the Board itself – see page 64 for an overview of structure, membership, roles and responsibilities and frequency of meetings, including management's role in assessing and managing climate-related risks and opportunities.

While this structure also covers broader ESG matters, climate-related matters are an important component of this and as such are regularly debated and discussed. During 2022, this included:

- discussion and approval at the Sustainability Steering Committee of the 2022/23 ambitions outlined in our 2022 climate report;
- annual review of the ESG exclusions policy and the responsible investment policy, coordinated by the ESG working group (and, in the case of the responsible investment policy, the Group Investment team) and approved by the Sustainability Steering Committee;
- meetings with catastrophe model vendors to discuss latest modelling developments, led by our catastrophe modelling team, which contribute to the work of the Natural Catastrophe Exposure Management Group (see page 64);
- deep-dive session with the Board on how we account for the effects of climate change in our modelling.

In our UK legal entities, this structure is bolstered by the appointment of senior managers with overall regulatory responsibility for managing the financial risks from climate change, in line with the UK's Senior Managers Certificate Regime (SMCR). The climate action plans we have developed as part of SMCR are considered not only through the relevant management meetings and subsidiary boards but also at the Sustainability Steering Committee to ensure appropriate inputs and oversight and drive progress.

Training and building expertise

We also consider the training and development requirements of those with oversight responsibilities and accountability for climate matters to ensure we have appropriate awareness and expertise to drive progress. In 2022, this included an externally facilitated climate training session, available to all Board Directors, to explore the requirements and competencies of a climate-informed board alongside horizon scanning of future expectations and regulatory requirements. This is now an annual feature in the Board calendar so we will continue to build expertise at our most senior level in 2023.

Other opportunities to further build in-house expertise are also considered on a team-by-team, function-by-function basis. For example, senior members of our in-house investment team have upskilled in ESG and climate matters by gaining accreditation in the form of the CFA Certificate in ESG Investing, and by attending a course led by The University of Oxford's Sustainable Finance Group.

We will consider further ESG or climate-specific training in 2023 as appropriate.

Policies and processes

The governance structure we have embedded for climate issues is also supported by a range of relevant policies and processes that we expect both our staff and our third-party providers to adhere to. These include the following:

- the Hiscox Group ESG exclusions policy, more information on which can be found on page 56. Oversight of this policy belongs to the Sustainability Steering Committee, with implementation of it driven at a business unit and function level across both underwriting and investments. The policy is reviewed annually and its 2022 review resulted in no changes;
- the Hiscox Group responsible investment policy, which outlines our expectations of both our in-house investment team and our external asset managers. This includes: our investment processes and

46
Find out more about our modelling of extreme natural catastrophe loss scenarios.

64
Find out more about our governance structure for climate-related matters.

stewardship activities as we look to invest in companies that have sound ESG practices; how we evaluate our managers' ESG integration; and our approach to impact investing. This policy is owned by the Group investment team with oversight from both the Sustainability Steering Committee and the Group Investment Committee. The policy is reviewed annually and its 2022 review resulted in some small adjustments to reflect progress, such as becoming a Principles for Responsible Investment (PRI) signatory;
- the Hiscox Group environmental policy, which outlines our approach to managing the environmental impact of our business activities and those that arise from our ownership and occupation of office premises. We actively manage and aim to minimise our environmental impacts, due to the resources we consume and the amount of waste our activities produce, as well as complying with relevant environmental legislation and other external requirements. While the policy is owned by our Chief Operations and Technology Officer and reviewed periodically, its effective implementation relies on Group-wide adherence to the environmental principles we wish to live by. During 2022, it was updated to reflect the Group's new net-zero aligned GHG targets;
- the Hiscox Group supplier code of conduct, which outlines how our corporate values and commitments to doing business in a socially responsible way extends to our relationships with suppliers and any subcontractors they may use. It covers areas including our commitment to fairness in the supplier selection process; supplier diversity; engagement; our expectations of how our suppliers behave as well as their obligations in adhering to laws and regulations regarding employment, health and safety, human rights and labour practices, the environment, diversity and inclusion, and anti-bribery and corruption. It is owned by our Group procurement team, shared with suppliers during the procurement process and published on **hiscoxgroup.com**. The supplier code of conduct superseded the ethical guide to suppliers during 2022.

These governance policies and processes are complemented by our long-standing active risk management practices, which include climate-related stress testing and scenario analysis (see pages 46 to 47), both through our own established internal programme of stress testing and scenario analysis and also as participants in market-wide activities such as the Bank of England's Climate Biennial Exploratory Scenario (CBES) in 2021 and the PRA's General Insurance Stress test (GIST) in 2022. Examples of the outputs of our internal work include the property extreme loss scenarios detailed on page 46, which show the potential financial impact to the Group of events including Japanese earthquake, Japanese windstorm, European windstorm, US earthquake and US windstorm. Our risk management practices also include the work of our exposure management groups, which is outlined on pages 63 to 65.

Our governance work culminates in regular, repeatable climate-related public reporting and disclosures. This includes owned reports such as our annual climate report, as well as global standards that provide a means of independent peer comparison such as CDP, ClimateWise, Dow Jones Sustainability Index, MSCI and Sustainalytics. An overview of our 2022 performance resulting from these disclosures can be found on page 65. These scores are used to inform areas of improvement for the year ahead, alongside our own ESG plans, with the resulting action plans agreed by the Sustainability Steering Committee.

Strategy

Annual business planning

ESG and specifically climate issues form part of the Board-approved Group business plan for the year ahead. This plan outlines the performance of key business areas during the prior year, and the strategic priorities for the year ahead. Areas covered include underwriting, investments, risk, IT, finance and marketing, as well as sustainability, and the plan is used by senior management to guide the Group's annual business strategy and financial planning where appropriate.

The 2022 Group business plan included an overview of key climate-related areas of focus for the year ahead such as:
- an annual review of the Group ESG exclusions policy and the responsible investment policy, both of which were completed during 2022, with any recommended changes to the policies approved through the appropriate governance channels;
- the development of a broader suite of climate risk metrics and transition pathway-aligned targets for the investment portfolio, which

More information on our approach to ESG and, in particular, climate can be found at **hiscoxgroup.com/responsibility.**

57
Find out more about our full GHG inventory, including emissions arising from our investment portfolio.

GHG emissions are calculated according to the Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (revised edition) and UK government SECR guidelines. Note some emissions totals may not tally due to rounding.

This table shows Group GHG emissions in line with SECR requirements, which differ from our full GHG inventory on page 57. In our full GHG inventory you will find information on emissions arising from investments, business travel and other elements not required under SECR.

has been considered during 2022 as part of the creation of an ESG dashboard for investments, and shared with all relevant working groups and committees, up to and including the Investment Committee of the Board;
- enhancements to existing processes for measuring and monitoring the Group's carbon emissions, which were addressed during 2022 through the introduction of a half-year footprinting process to provide mid-year oversight of the data and which further improved data quality.

These outputs are included as part of the 2022 performance review within the 2023 Group business plan, with new strategic deliverables (including climate-related deliverables) set for the year ahead.

Climate-related risks and opportunities

We consider climate change to be a cross-cutting risk with the potential to impact each existing risk type. It could have a material impact on the Group, by altering the frequency and severity of extreme weather events that we are exposed to through our underwriting, but it could also present an opportunity, driving greater demand for cover against changing weather trends and creating a need for innovative new products that meet emerging needs.

In addition to the physical impacts of a changing climate, the Group is also aware that the transition to a low-carbon economy, necessary to limit the worst physical impacts of global warming, also presents significant business challenges, as well as opportunities. One example of this is climate litigation risk, where one party may seek to

Near-term climate risks and opportunities (0-5 years)	Medium- to long-term climate risks and opportunities (5+ years, up to 2050)
More frequent and more intense natural catastrophes arising from climate change, such as floods and storms, could result in changes to current claims patterns. These claims will not only come from damage to property but also from other knock-on effects, such as global supply chain disruption or scarce resources. However, given the majority of the policies we write are annual (re)insurance policies, we regularly consider our exposures to climate-related risks which gives us the opportunity to adjust pricing and appetite accordingly. An overview of our modelling of extreme natural catastrophe loss scenarios can be found on page 46.	Climate-related risks have the longer-term potential to impact regulatory risk, credit risk, legal risk, reputational risk, and technology risk. We have several emerging risks forums across the organisation which are designed to identify emerging, longer-term risks and opportunities, including climate-related risks and opportunities. Alongside our in-house modelling and research expertise, these groups ensure our work takes into account climate-related issues over a range of business planning time frames.
There are also the financial risks which could arise from the transition to a lower-carbon economy, such as a slump in the price of carbon-intensive financial assets. Our ESG exclusions policy, which will see us reduce our exposures to the worst carbon emitters in both underwriting and investments, prepares us for this as do our new GHG emission reduction targets. For more information, see page 56.	There is also the longer-term litigation risk: that those who have suffered loss from climate change might then seek to recover those losses from others who they believe may have been responsible. Where such claims are successful, those parties against whom the claims are made may seek to pass on some, or all, of the cost to insurance firms through policies such as professional indemnity or directors and officers' insurance.
We have significant expertise in areas such as flood, where we have a suite of products and considerable risk experience; renewable energy where we are supporting a number of major wind and solar energy projects; and in the decommissioning of offshore carbon assets which is an area we insure. These are lines of business where we could see increased opportunity over time, and in some cases are already benefitting from changing customer trends, for example in US flood, where demand is growing and our product offering, use of data and technology means we are well placed to serve more customers with flood cover.	While in the long term as a property casualty insurer, Hiscox is certainly exposed to climate-related risks, we believe our exposures can be managed through time as a result of how we conduct our business. For example, through the flexibility we have in our predominantly annual underwriting contracts, and through the liquidity of our investment portfolio which lends itself to constant adjustment. This flexibility is our key tool for managing the multi-decade challenge of climate risks holistically.

Streamlined Energy and Carbon Reporting (SECR) GHG emissions

Activity	2022 energy (kWh)	2022 emissions (tCO_2e)	2021 energy (kWh)	2021 emissions (tCO_2e)	Year-on-year change in emissions (tCO_2e)
Scope 1 total		786		678	16%
Natural gas	2,439,188	445	2,342,644	441	1%
Company cars	1,048,235	250	377,056	87	189%
Refrigerants		91		150	-39%
Scope 2 (market-based) total		927		866	7%
Electricity (location-based)	5,311,279	1,313	5,603,303	1,484	-12%
Electricity (market-based)	5,311,279	874	5,603,303	847	3%
District heating	307,720	53	108,999	19	182%
Operational Scope 3 total		19,298		17,116	13%
Total operational footprint (market-based)		21,011		18,660	13%
Total Scope 1 and 2 – UK proportion (market-based)		29%		36%	-20%

recover climate-change-related losses from another who they believe may have been responsible.

The governance and risk management structures we have in place are critical to the delivery of the annual Group operating plan (outlined above) and ensure a coordinated approach to climate and other issues across the Group. These structures are supported by investments in technology – to ensure the right modelling and data are available to support our pricing and exposure – and by in-house expertise – where we combine off-the-shelf climate views with our own claims expertise and insight to form a unique view (what we call the 'Hiscox view of risk').

Therefore, we consider the potential impact from climate-related issues over short-, medium- and long-term time horizons which are defined opposite and which broadly align with business planning timeframes.

In 2022, Hiscox Syndicate 33, Syndicate 3624 and Hiscox Insurance Company (HIC) participated in the Bank of England's General Insurance Stress Test Exercise (GIST). The objectives of the GIST 2022 exercise were to assess resilience to severe but plausible natural catastrophe, as well as cyber scenarios, to gather information about firms' modelling and risk management capabilities and to enhance the PRA's and firms' abilities to respond to future shocks. While the exercise did not aim to assess the financial impact specifically from climate change, the climate-related (atmospheric) scenarios it explored – US hurricanes, European/UK windstorms and UK flood – represented severe but plausible realisations of current climate conditions chosen to reflect firms' exposures and business models. Industry-wide stress tests such as the GIST support our established and embedded programme of internal stress testing and scenario analysis, and contribute to their continued evolution.

In order to meet future disclosure requirements in this area, we continue to review a range of scenario impacts through internal workshops, from which potential management actions can be identified and our strategy and risk management approach can be further refined. This includes planned activity for 2023 to review our underwriting portfolios against a range of global warming scenarios, including a below two degrees scenario, using both our own and credible third-party data around future target states for climate. We will provide a further update on our progress in this area in our 2023 Annual Report.

Risk management

Approach

While there are certain nuances to climate risk, we consider it to be a cross-cutting risk with potential to impact each existing risk type, rather than a stand-alone risk. Climate-related risks, among other major exposures, are monitored and measured both within our business units and at Group level, so we understand how much overall risk we take and what is being done to manage it. We look at how different risks interact and whether these may result in correlations or concentrations of exposure that we need to know about, monitor and manage.

By design, our Group risk management framework provides a controlled and consistent system for the identification, measurement, mitigation, monitoring and reporting of risks (both current and emerging) and so is structured in a way that allows us to continually and consistently manage the various impacts of climate risk on the risk profile. For example, relevant climate considerations are included in our risk and control register and our risk and control self-assessment process, as well as in our risk policies. This means that climate-related risk drivers are assessed and recorded against the risks on our risk and control register, and ensures that we do not consider any single climate risk factor in isolation.

Structure and oversight

Our Risk Committee has the main responsibility for assessing the climate-related risks and opportunities we face. It advises the Board on how best to manage the Group's risks, by reviewing the effectiveness of risk management activities and monitoring the Group's actual risk exposure. The Risk Committee relies on frequent updates from within the business, including those arising from the management committees and working groups that report up through the Risk Committee, some of which are outlined below, and from independent risk experts for its understanding of the risks facing both our business and the wider industry.

Group Underwriting Review (GUR)

The GUR is a Group management committee focused on assessing progress against the Group's strategic underwriting priorities, reviewing and challenging the Group's underwriting portfolio and loss ratio performance, and approving key underwriting risks. It also serves as an escalation point for underwriting governance and control issues.

The committee meets at least five times a year, is chaired by the Group

ESG governance structure

How we manage and monitor ESG issues to ensure appropriate accountability and oversight. This structure is supported by other established roles and teams that contribute to our ESG story. These include our employee-led networks including our green teams, our governance committees, and our Natural Catastrophe Exposure Management Group. These areas are represented in elements of this structure.

Board

- Oversight of long-term ESG vision, strategy, priorities and performance against agreed metrics and targets.
- Ensures governance and accountability in place with sufficient support.
- Typically twice-yearly discussion on ESG strategy, trends, opportunities, vulnerabilities, and emerging issues.

Risk Committee

- Advises Board on ESG strategy, key priorities, risk profile, risk exposures and opportunities.
- Recommends proposals for consideration by the Board as required.

Group Risk and Capital Committee (GRCC)

- Quarterly reporting on ESG matters from Sustainability Steering Committee.
- Sets high-level Group strategy, priorities and ensures delivery across the Group.

Group Executive Committee (GEC)

- Periodic ESG sessions.
- Sets business unit or function ESG-related strategy, priorities and drives delivery through business units and functions.

Sustainability Steering Committee (SSC)

- Sub-committee of the GRCC, responsible for execution of the agreed ESG strategy, driving actions and delivery at a Group level.
- Typically meets quarterly and embeds sustainability risks and opportunities.
- Oversees effective use of resources and tracks Group and entity-level sustainability performance.
- Ensures senior management-level involvement and accountability for sustainability issues, with senior representation from areas including underwriting, investments and operations.

ESG working group

- Operational body, providing central point of coordination and expertise for ESG-related activity across the Group.
- Manages ESG-related Group reporting, disclosures and communications.
- Meets monthly and provides input and recommendations to management on ESG matters.
- Focuses on ESG-related research, including external monitoring and expectations.

Chief Executive Officer, and attended by other senior leaders including the Group Chief Financial Officer, Group Chief Underwriting Officer, Group Chief Risk Officer – with experts invited from actuarial, claims, underwriting risk and reinsurance.

A number of working groups feed into the GUR, including some with particular climate relevance such as the Natural Catastrophe Exposure Management Group (see below) and the Casualty Exposure Management Group, which considers among other things risks associated with climate litigation.

In focus: the Natural Catastrophe Exposure Management Group

We review natural catastrophe risk at least quarterly, through our Natural Catastrophe Exposure Management Group. This group is chaired by the Group Chief Underwriting Officer and attended by other Hiscox senior managers with responsibility for catastrophe-exposed business. This group looks at the risk landscape, exposure monitoring and capital modelling for climate-related perils, and recommends, based on the latest observations and scientific knowledge, which models should be used for each peril, and, if necessary, how they should be adapted to reflect our best view of the risk. They also identify new areas of risk research.

All changes to modelling policy and all of our research prioritisations and results are signed off and authorised by this group, decisions are recorded, and models are adapted to reflect policy. Their work not only enables us to continuously refine our models (using data to make better decisions): it also supports future product development.

ESG disclosure

We recognise the importance of credible, repeatable and comparable ESG disclosure which is why we contribute to a number of independent ESG standards.

2022: B grade
2021: B- grade

CDP DRIVING SUSTAINABLE ECONOMIES

2022: AA grade
2021: A grade

MSCI

2022: 83%
2021: 72%

ClimateWise Insuring a sustainable future

2022: 28.7
2021: 27.1

SUSTAINALYTICS

2022: 45/100
2021: 40/100

Dow Jones Sustainability Indexes

For example, we have calibrated and delivered a loss model that will improve the pricing capabilities for one of our flood insurance products, FloodPlus. We also included the use of additional model sources for location-level pricing. In addition, we are working with data providers to augment FloodPlus with first-floor elevation data, and are exploring the use of machine learning to augment the information we receive from vendor flood hazard maps.

Group Risk and Capital Committee (GRCC)

The GRCC is a Group management committee focused on risk and capital management. It covers all types and categories of risk, including but not limited to underwriting, reserving, market, credit, operational and strategic risk (see pages 8 to 11 for a summary of our key risks), as well as risk aggregation, concentration and dependencies.

The committee meets four times a year, is chaired by the Group Chief Executive Officer, and attended by other senior leaders including the Group Chief Financial Officer, Group Chief Underwriting Officer, Group Chief Risk Officer, and the Group Head of Capital Management – with other experts invited from across the business as required.

A number of committees feed into the GRCC, including some with particular climate relevance such as the Sustainability Steering Committee and the Grey Swan Group (see below).

In focus: the Grey Swan Group

The focus of the Grey Swan Group is to consider various enterprise emerging risks identified from across the business and to provide a forum for discussion to ensure Hiscox has the relevant grey swans identified and the right actions in place to deal with them.

A number of elements feed into this process including enterprise emerging risk scanning; regulatory horizon scanning; casualty exposure management; strategic and business planning; claims and actuarial reserving; and any other relevant business unit or function inputs.

Rapidly evolving expectations on company's responses to ESG and climate change is considered as part of this group, in addition to other matters unrelated to ESG or climate change.

The risk management processes we have established and embedded for climate-related matters feed into the annual review of the operating plan, the long-term strategy planning process, as well as forward-looking assessment scenarios and stress tests and reverse stress test scenarios.

Metrics and targets

The cornerstone of our climate-related metrics and targets is our Board-approved GHG emission reduction targets, which were created using SBTi methodologies that align with a 1.5°C net-zero world by 2050. This is in keeping with our commitments as a signatory to the 2015 Paris Climate Agreement.

GHG targets

Our GHG targets commit us to:

- reduce our Scope 1 and Scope 2 emissions by 50% by 2030, against a 2020 adjusted baseline*;
- reduce our Operational Scope 3† emissions by 25% per FTE by 2030, against a 2020 adjusted baseline*;
- transition our investment portfolios to net-zero GHG emissions by 2050;
- engage with our suppliers, brokers and reinsurers on our net-zero targets and on their plans to adopt Paris-aligned climate targets;
- monitor emerging standards around underwritten emissions and collaborate across our industry on their development, aligning with best practice in this area as it emerges.

*Baseline year adjusted in light of Covid-19-related lockdown measures,to reflect a more normal year in terms of business travel etc.
†Operational Scope 3 emissions predominantly consist of purchased goods and services and capital goods, and business travel (air, rail and car travel). More information on the Group's operational Scope 3 emissions can be found on page 57.

Interim GHG targets and progress

We recognise that achieving these targets will take collective, consistent effort and have started work towards achieving them, as outlined below. This will continue in 2023, when we will also publish our low-carbon transition plan for the Group.

- In addressing our Scope 1 and Scope 2 targets, we have this year introduced a new half-year carbon footprint process in order to further enhance data transparency and provide a new midpoint for internal tracking and review. We have also reviewed all electricity contracts across the Group to further improve our evidence base and oversight as we migrate to renewable electricity contracts wherever possible. Where we have total control over our utility providers, this is easier to do, but where that control is shared, or where it belongs to our landlords, we will petition for change.
- On Scope 3, where emissions are dominated by our investments, as previously announced we have set a number of interim targets: that we will aim for more than

25% of our corporate bond portfolio by invested value to have net-zero/Paris-aligned targets by 2025, followed by an additional 25% by AUM coverage every five years as we aim to be on a linear path to 100% portfolio coverage by 2040. We are currently making good progress towards the first of our interim targets, with approximately 20% of our corporate bond portfolio having net-zero/Paris-aligned targets as at year-end, and will continue to engage with our managers on further net-zero plans and action.

Progress against these targets will be driven by our ESG working group and overseen by our Sustainability Steering Committee. Progress will also be recorded through our annual carbon reporting cycle, and we will seek to remain operationally carbon neutral through offsetting, as we have been since 2014. More information on our 2022 carbon emissions can be found on page 57.

Metrics and targets beyond GHG

- The monitoring and measurement of underwriting and investment exposure to carbon-heavy sectors including coal-fired power plants and coal mines, oil sands and Arctic energy exploration (beginning with the Arctic National Wildlife Refuge), in line with our Group ESG exclusions policy.
- Annual investment portfolio sustainability reviews, taking into account climate-related issues, in line with our responsible investment policy.
- The growth and exposure of sustainable underwriting products such as flood and renewable energy products.

These activities are owned by the relevant business areas, from underwriting to investments, with progress reported through the embedded ESG governance structures. These metrics and targets are complemented by external key performance indicators, such as our public ESG disclosure scores (see page 65) and our annual climate report, which assess our progress against climate-related activities during the prior year and outlines our plans for climate-related action in the year ahead.

TCFD disclosure mapping compliance statement

Theme

Governance
Disclose the organisation's governance around climate-related risks and opportunities.

Strategy
Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning where such information is material.

Risk management
Disclose how the organisation identifies, assesses, and manages climate-related risks.

Metrics and targets
Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.

Read more in our 2022 CDP disclosure
hiscoxgroup.com/cdpdisclosure2022.

Read more about our approach to climate change in our 2022 climate report*, available online at
hiscoxgroup.com/2022climatereport.

*Our 2022 climate report was published in August 2022 and covers our climate-related activities between July 2021 and July 2022. Where we reference information from that report, that information remains correct at 8 March 2023.

Disclosures have been made against the TCFD recommendations, taking into account the TCFD supporting guidance, and in consideration of the FCA listing rules. Where additional information outside of this report aids our TCFD disclosure, links to this information have been provided, and where we have not yet disclosed fully against the recommended TCFD disclosure, we have outlined why this is and the actions already being taken towards meeting the disclosure requirements within the timeframe given.

Recommended disclosure	Status	Reference
Describe the organisation's governance around climate-related risks and opportunities.	Disclosed.	2022 climate report* pages 9 to 12. CDP climate questionnaire 2022.
Describe management's role in assessing and managing climate-related risks and opportunities.	Disclosed.	2022 climate report* pages 15 to 16. CDP climate questionnaire 2022.
Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term.	Disclosed.	2022 climate report* pages 24 and 28. CDP climate questionnaire 2022.
Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning.	Focus on developing low-carbon transition plan to enhance disclosure.	CDP climate questionnaire 2022.
Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	Focus on identifying risks and opportunities to progress towards disclosure.	2022 climate report* page 13. More information on steps being taken towards meeting this disclosure requirement can be found on page 63.
Describe the organisation's processes for identifying and assessing climate-related risks.	Disclosed.	2022 climate report* pages 15 to 16 and 27 to 32. CDP climate questionnaire 2022.
Describe the organisation's processes for managing climate-related risks.	Disclosed.	2022 climate report* pages 15 to 16 and 27 to 32. CDP climate questionnaire 2022.
Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.	Disclosed.	2022 climate report* pages 10 to 13 and 15 to 16. CDP climate questionnaire 2022.
Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.	Additional indicators to monitor and manage risk exposure, including TCFD's cross-industry climate-related metrics, to be considered over time.	2022 climate report* pages 21 and 37. CDP climate questionnaire 2022. See Hiscox Group website.
Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 GHG emissions and the related risks.	Disclosed.	2022 climate report* pages 36 to 37. CDP climate questionnaire 2022. See Hiscox Group website.
Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.	Disclosed.	2022 climate report* pages 36 to 38. CDP climate questionnaire 2022.

Q&A:

with Regine Fiddler
Chief Marketing Officer, Hiscox USA

Brand ambassador

Building an insurance brand is about so much more than advertising and digital marketing. It's about showing customers, partners and brokers that you genuinely care. >

Regine Fiddler joined Hiscox in November 2020, with a long track record of building and growing brands in the banking and fintech sectors. Based in New York, she is tasked with driving the next phase of Hiscox USA's brand-building to support its laser focus on small business insurance.

Q&A:

with Regine Fiddler
Chief Marketing Officer, Hiscox USA

Q: What was it that initially drew you to joining Hiscox?
A: For me, the key drivers were what Hiscox stands for as an employer and how I saw that exhibited through our advertising to customers, brokers and agents. What I thought was compelling was that we capture the small business audience in a way that other brands typically don't. It's very authentic, it's very real. For a marketer, insurance may not seem like the sexiest sector, but I love industries where marketing isn't just about selling a pretty product. It's about a product that can make a real difference in people's lives. Also, insurance isn't something that's easy to market, so it challenges you a little more!

Q: What do you think are the key elements to building a successful insurance brand?
A: When I think about building a brand, it's not really about advertising. It's not about having a pretty logo. Instead, it's about every touchpoint that drives an emotional benefit. Whether you're a customer, a partner or a broker, when you pick up the phone and call us, or when you go through our e-commerce experience, do you get the emotional benefit of knowing who we are and what our value proposition is? Do you feel, *"Hey, these people really are experts, and they're so efficient and reliable"?* Do we make you feel like you've got a partner who's really got you covered? Advertising and digital marketing are important, but it's the soft skills that we exhibit in our interactions that matter most. Especially in a commodity business, customers don't rave if you only deliver what they expect. We need to go beyond that. We need to show that we genuinely care. Every interaction, every communication, has to exhibit that.

Q: Hiscox USA has been going through a strategic shift on the broker side. Tell us about that.
A: For our broker channel, our strategy is to home in on where we have the right products, as well as the right underwriting expertise to provide the very best solutions. So we made the decision that the sweet spot for us is serving small businesses with annual revenues of under $25 million, though we're also continuing to serve businesses with up to $100 million in revenue. Writing anything over that wasn't core to our expertise. As a result, we've slimmed down our appetite for products that were being sold to companies over $100 million. Unlike a lot of carriers, we remain truly focused on small business. There is plenty of opportunity in that space – we have over 30 million small businesses in the USA! So many successful companies start out with entrepreneurs that have one or two employees. Give them what they need, and they'll stay with you as they grow. That's how we'll win in this category.

Q: When you're dealing with smaller, more entrepreneurial businesses, what are the buttons you're trying to push?
A: One of the main problems for small businesses in choosing insurance is they think it's complex and time-consuming, and they don't really understand it. Their pain point is, *"This is complicated, I don't even know why I need it".* What we should be thinking is, how do we provide the information they need in a way that's digestible? Through content marketing, we want them to understand why it's important to have insurance, what it covers, and what is most applicable to them. It's about educating the customer and providing them with efficient information to make the best decision for their business. It's about focusing on their needs. How do we, as our slogan says, 'encourage courage'? How do we help them pursue their dreams?

Q: What other forms of marketing work well for you?
A: Obviously we have brand marketing and we have acquisition marketing, but within that I would say about 20-25% of our marketing balance is focused on grassroots marketing. We've been

"When I think about building a brand, it's not really about advertising. It's not about having a pretty logo. Instead, it's about every touchpoint that drives an emotional benefit."

"For a marketer, insurance may not seem like the sexiest sector, but I love industries where marketing isn't just about selling a pretty product. It's about a product that can make a real difference in people's lives."

going to small business trade shows, we've been building connections with diverse small business segments like the US Hispanic Chamber of Commerce. That allows us to interact with business owners, which is really important to understanding what makes them tick. This isn't static, of course, and what we're seeing now is that they care about much more than just the price of insurance – they care about who's really standing up for them when they need them the most. That means a lot to us because we pride ourselves on being customer focused and having that strong customer relationship.

Q: How does marketing work across Hiscox as a global organisation? How connected are you with your peers in other regions?
A: That's a very timely question, because we're currently undergoing a global brand refresh project with the Group. We've always been committed to our brand being represented consistently across the countries in which we operate, so this is about us coming together as a global marketing organisation and defining who we are right now and who we want to be as the business grows. We're now testing a couple of concepts with customers across different countries so it's a pretty exciting time.

Q: So, where do you see the biggest opportunities for Hiscox USA?
A: I think it's in our continued investment in digital. And not just in partnerships, but direct-to-consumer and in the retail trade, because brokers are going to want more tools and more technology to drive efficiency across their channel. We've seen some of that, but it's not over yet.

I love where we stand in our digital evolution. We know that we need to be great on the digital side, but we also know that our business is based on relationships. A broker wants to be sure that there's an underwriter or a relationship manager on the other end of the phone when they need them. Right now, most carriers are really good at the relationship side, but they're not really developed on the digital side. Or you have insurtechs who are really great at digital, but miss the mark when it comes to building those relationships in the retail traded channel. We want to make sure that whoever you are, we've provided a path to meet your needs and that's something that makes Hiscox unique in the US market.

Q: Outside of work, what gives you energy?
A: My family, for sure. It's a simple thing. I have a 14-year-old son, and watching him grow up, watching him embrace life and be much braver than I ever was at 14 – that is my greatest source of energy and happiness.

Board of Directors

Non Executive Chairman
Robert Childs (Aged 71)
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
None.

Executive Director
Aki Hussain (Aged 50)
Group Chief Executive 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 experience of driving business change.

Aki joined Hiscox in 2016 as Group Chief Financial Officer and became Group Chief Executive Officer in 2022. Aki also sits on the Board of a number of Hiscox subsidiary companies. Prior to Hiscox, Aki held a number of senior roles across a range of sectors, including Chief Financial Officer of Prudential's UK and Europe business, and Finance Director for Lloyds Banking Group's consumer bank division. Aki is a Chartered Accountant, having trained with KPMG.

External board appointments
Visa Europe Limited.

Executive Director
Paul Cooper (Aged 50)
Group Chief Financial Officer
Appointed to the Board: May 2022

Relevant skills, experience and contribution
- Considerable experience of financial and commercial management within a complex regulatory and compliance environment.
- Qualified Chartered Accountant, with significant experience of both the retail and Lloyd's insurance markets.

Paul joined Hiscox in 2022 as Group Chief Financial Officer. With over 25 years of financial services experience, Paul has held a number of senior roles, including most recently Interim Group Chief Financial Officer at M&G Plc and Chief Financial Officer for The Prudential Assurance Company. Paul is a qualified Chartered Accountant, having trained with PwC, and sits on the board of a number of Hiscox subsidiary companies.

External board appointments
Association of British Insurers.

Executive Director
Joanne Musselle (Aged 52)
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 20 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.

Senior Independent Director
Colin Keogh (Aged 69)
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 Chair of the Hiscox Insurance Company Limited Board and also of the Remuneration Committee.

External board appointments
Ninety One Plc; Ninety One Ltd.

Independent Non Executive Director
Donna DeMaio (Aged 64)
Appointed to the Board: November 2021

Relevant skills, experience and contribution
- Extensive financial services experience, particularly in the USA.
- Proven expertise in overseeing global auditing activities.

Donna has over 35 years' financial services experience, gained across banking and insurance. She was AIG's General Insurance Global Chief Operating Officer and also served as their Global Chief Auditor. Donna was Chief Executive and Chair of the Board at United Guaranty, CEO and Chair of the Board at MetLife Bank and was a PwC Financial Services Partner. Donna serves on the board of Hiscox Insurance Company Inc. as a Non Executive Director and is Chair of the Audit Committee.

External board appointments
Azure; State Street Corporation.

- 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 64)
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 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 Huerlimann (Aged 59)
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 serves on the Hiscox SA Board as a Non Executive Director.

External board appointments
Leadway Assurance Ltd, Nigeria.

Independent Non Executive Director
Anne MacDonald (Aged 67)
Appointed to the Board: May 2015

Relevant skills, experience and contribution
- Extensive marketing expertise, particularly in the USA.
- Sizeable 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, Travelers, Macys and Pizza Hut. Anne serves as the Employee Liaison for Hiscox.

External board appointments
Boot Barn Holdings, Inc.; IGNITE National; Visiting Nurse & Hospice of Litchfield County.

Independent Non Executive Director
Constantinos Miranthis (Aged 59)
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. He is a Fellow of the UK Institute and Faculty of Actuaries and a resident of Bermuda. Costas serves on the Hiscox Insurance Company (Bermuda) Limited Board as a Non Executive Director.

External board appointments
Argus Group Holdings Limited; Pacific Life Re; Gatland Holdings Jersey Limited.

Independent Non Executive Director
Lynn Pike (Aged 66)
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 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; Bankwork$ Advisory; California State University Channel Islands Foundation.

Group General Counsel and Company Secretary
Marc Wetherhill (Aged 50)

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.

Departures and appointments

Executive appointments
Paul Cooper
(effective 9 May 2022)

Non Executive appointments
None.

Executive retirements
None.

Non Executive retirements
Caroline Foulger
(effective 12 May 2022)

Retired Non Executive Director

Independent Non Executive Director
Caroline Foulger (Aged 62)
Appointed to the Board: January 2013

A resident of Bermuda, Caroline 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 stepped down from the Hiscox Ltd Board at the 2022 AGM, following the conclusion of her nine-year term with the Company.

Director duties
As a company incorporated under the laws of Bermuda, Hiscox complies with 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 a comparable circumstance. The Directors act in a way that they consider in good faith would be most likely to promote the success of the company for the benefit of its members as a whole.

Board statistics

59
Read more about gender and ethnic diversity at Hiscox.

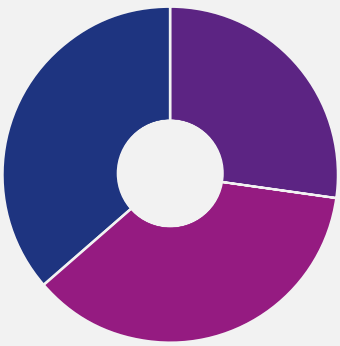
Board statistics
Board diversity at 8 March 2023

Gender

Female	4
Male	7

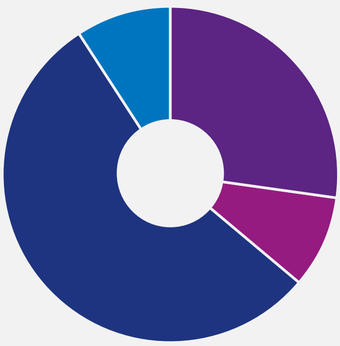
Age

46-55	3
56-65	4
66-75	4



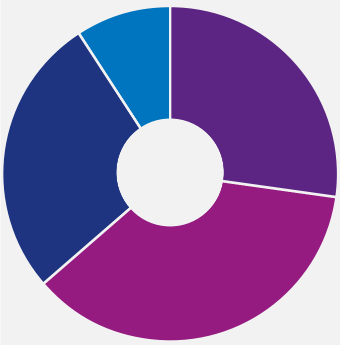
Location

USA	3
Bermuda	1
Europe	6
Asia	1



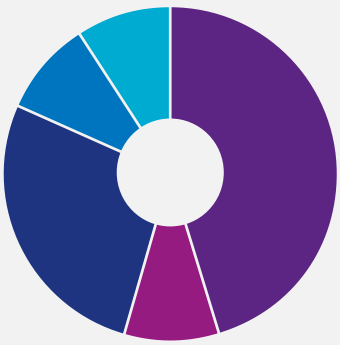
Tenure

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



Nationality

British	5
Bermudian*	1
American	3
Swiss	1
Australian	1



*Includes those Directors who hold a Permanent Residency Certificate.

Group Executive Committee

Aki Hussain
Group Chief Executive Officer
Joined Hiscox: 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 experience of driving business change.

Aki joined Hiscox in 2016 as Group Chief Financial Officer and became Group Chief Executive Officer in 2022. As such, Aki leads the Group Executive Committee in realising the strategy, delivering the business plan, and driving the Company through its next phase of growth. Prior to Hiscox, Aki held a number of senior roles across a range of sectors, including Chief Financial Officer of Prudential's UK and Europe business, and Finance Director for Lloyds Banking Group's consumer bank division. Aki is a Chartered Accountant, having trained with KPMG.

Paul Cooper
Group Chief Financial Officer
Joined Hiscox: May 2022

Relevant skills, experience and contribution

- Considerable expertise of financial and commercial management within a complex regulatory and compliance environment.
- Qualified Chartered Accountant, with significant experience of both the retail and Lloyd's insurance markets.

Paul joined Hiscox in 2022 as Group Chief Financial Officer to lead our team of 400 finance experts around the world and ensure robust financial systems and continued capital efficiency. With over 25 years of financial services experience, Paul has held a number of senior roles, including most recently Interim Group Chief Financial Officer at M&G Plc and Chief Financial Officer for The Prudential Assurance Company. Paul is a qualified Chartered Accountant, having trained with PwC.

Robert Dietrich
Chief Executive Officer, Hiscox Europe
Joined Hiscox: June 1997

Relevant skills, experience and contribution

- In-depth knowledge of the European insurance market.
- Significant experience of bringing niche insurance products to market.

Robert served as Managing Director for Hiscox Germany for many years, driving disciplined expansion and building it into the flagship European business it is today. In 2021, he took on wider responsibility for Hiscox Europe, whose operations span eight countries, overseeing critical cross-country systems transformation and redefining its long-term vision.

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 corporates 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.

Kevin Kerridge
Chief Executive Officer, Hiscox USA
Joined Hiscox: December 1996

Relevant skills, experience and contribution

- Significant expertise in, and at the forefront of, how digital is reshaping our industry landscape.
- Multi-market, ground-up experience of building omni-channel retail businesses.

Kevin has held a number of strategic planning, leadership and operational roles across the Group and was an early pioneer of our eCommerce approach, having set up and run our UK Direct business before relocating to establish our digital operations in the USA. He has led Hiscox USA since 2021, which now spans nine offices and over 500 employees, overseeing product and service innovations and a programme of technology re-platforming that can support our significant growth ambitions in the region.

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 profitable 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. In addition, Kate is the Group's Executive Sponsor for diversity and inclusion.

Jon Dye
Chief Executive Officer, Hiscox UK
Joined Hiscox: September 2022

Relevant skills, experience and contribution
- In-depth knowledge of the UK insurance market.
- Track record of building sustainable, profitable retail insurance businesses.

Jon joined Hiscox in 2022 from Allianz UK, where he was Chief Executive Officer. He leads our UK retail insurance business, which spans eight offices and over 800 employees and oversees the development of our established broker business, as well as our partnerships division and direct-to-consumer offerings. Jon is responsible for building on our long-term broker relationships, distinguished brand and deep expertise in underwriting and digital distribution with new capabilities as we continue to drive scale.

Stéphane Flaquet
Group Chief Operations and Technology Officer
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 since held a number of other senior roles including Group Chief Information Officer, Chief Executive Officer of Hiscox Europe, Chief Transformation Officer and Interim Chief Executive Officer for Hiscox UK. In his new role, created during 2022, he oversees a number of critical Group functions including claims, technology, change, property services, procurement and marketing to ensure the continued effective and efficient delivery of core services while also driving process maturity and digital transformation.

Nicola Grant
Group Chief Human Resources Officer
Joined Hiscox: September 2022

Relevant skills, experience and contribution
- Deep expertise in developing and implementing HR strategies across multiple geographies.
- Significant experience of global performance and reward management, robust talent and succession planning and HR transformation.

Nicola joined Hiscox in 2022 from ING Group where she held a number of senior HR positions. She leads our team of 95 HR professionals around the world and drives the Group's people strategy as we focus on attracting, retaining and developing great people to support the next phase of the Group's growth. This includes oversight of our HR policies and procedures, employee rewards and benefits, recruitment, learning and development, and our approach to remuneration including executive compensation.

Joanne Musselle
Group Chief Underwriting Officer
Joined Hiscox: April 2002

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 19 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.

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 leads our reinsurance and ILS business, which operates in London and Bermuda. She is responsible for ensuring the 110-strong team of underwriting, analytics and asset manager experts take advantage of changing market conditions and seize opportunities as they present themselves, as we continue to build both specialist reinsurance capability and our position as an expert alternative capital manager in the ILS space.

Q&A:

with Jon Dye
Chief Executive Officer, Hiscox UK

Going places

Hiscox UK is a well-established retail brand with a strong culture and considerable expertise, and its opportunities for growth are plentiful. >

Jon Dye joined Hiscox in September 2022 after working in a number of senior roles within the insurance industry, most recently as Chief Executive Officer of Allianz UK. He also served as Chair of the ABI between 2019 and 2021. In his new post, he is responsible for leading the next phase of growth for Hiscox's flagship UK retail business.

Q&A:

with Jon Dye
Chief Executive Officer, Hiscox UK

Q: You've had a long career in the insurance industry. What was it that drew you to it initially?
A: I'm a law graduate, but I was always pretty certain that I didn't want to join the legal profession. One of my lecturers said: *"If you're interested in the law and you want to change things, don't be a lawyer, because their role is to follow their clients' instructions. What you need to do is work for one of the compensators".* That means basically the insurance industry and the government. You hear lots of senior people say: *"I fell into insurance. It was an accident".* I didn't fall into insurance. I chose to come to insurance because I thought it was a fascinating and important business, which it is.

Q: As well as several Chief Executive Officer roles, you've also had a recent stint as Chair of the Association of British Insurers (ABI). What did you take from that experience?
A: I took a huge amount from that role and it was all in the timing. I was appointed in the summer of 2019, when none of us knew what was just around the corner. Covid was one of our industry's biggest challenges for lots of reasons, and being the ABI Chair as the industry faced those challenges was such a valuable experience. Everybody had different views of the same problem and we really did have to work together to navigate through it.

Q: What was your impression of Hiscox from the outside?
A: My impression was that it had managed to build a clearly differentiated position in the market, which is a very difficult thing to do in insurance. There's no IP in your product, because it's there on sale, for all to see. To differentiate yourself is really quite hard, but I think Hiscox has done that spectacularly well. Good people, clever products, fantastic claims service – that's what I perceived from the outside and that is exactly how it is. The culture runs through Hiscox in a way that is genuinely tangible. Every business says it's customer-centric, every business says it's entrepreneurial, but living up to that can be quite hard. If you haven't got that culture, creating it is really difficult. And if you have got it, wow – that's a great advantage!

Q: What attracted you to this particular role?
A: It's an opportunity to grow not just the business, but also my own skills and experiences. We have an energetic new Group Chief Executive Officer who has big ambitions for us, who wants to see the UK retail operation move forward and is prepared to put money into that in terms of brand investment, change investment and broad support for what we're trying to do. There's no issue in terms of headroom. Are we banging our head on the maximum that you can achieve in terms of market share in key products? No. It's all in our gift. That's the great attraction. Through the channels we're already working in, we can do things better and bigger than we do today.

Q: Presumably, your relationship with brokers will be vital to that growth. How is that relationship changing as technology evolves?
A: Technology is important. A lot of our change budget is pointed at digital initiatives with brokers. Brokers want us to be easy to deal with, and for smaller, more straightforward risks, that's got to be digital. I think we've got a real opportunity here to steal a bit of a march on the market and move ourselves into a leading position if we invest intelligently. We're on a journey there and I think quite an exciting one.

But in other ways, working with brokers is no different to how it was in January 1989, when I started. People trade with people they know and trust. And that works all the way up and down the business. It's a partnership and our success depends on our ability to build and leverage those relationships. One of the big advantages at Hiscox is that we've got a very flat structure. Brokers can easily get to the decision-makers who are executing on the strategies that we've laid down. We're actually looking to devolve even more decision-making to frontline specialists, allowing them to deliver at pace and in this market that's quite unusual.

Q: What do you think your priorities will be in the coming year?
A: We're known in the market for our strong underwriting talent and we'll continue to strengthen and build this

"The launch of our new Hiscox Underwriting Academy is going to be important as it will enhance our ability to grow and train our own talent. We'll continue to recruit market experts where appropriate, particularly those with specialist expertise in profitable growth segments."

"We have an energetic new Group Chief Executive Officer who has big ambitions for us, who wants to see the UK retail operation move forward and is prepared to put money into that in terms of brand investment, change investment and broad support for what we're trying to do. There's no issue in terms of headroom."

core capability. The launch of our new Hiscox Underwriting Academy is going to be important as it will enhance our ability to grow and train our own talent. We'll continue to recruit market experts where appropriate, particularly those with specialist expertise in profitable growth segments.

We'll also be investing in technology – that's really important. As well as building our digital trading capability, we also need to simplify and digitise our own processes and automate simple tasks. And we're investing in technology to improve the customer journey – we need to ensure our people have all the tools they need to exceed customer expectations.

Q: How important is it to have a high-performing claims service?
A: I spent the first 18 years of my career working in claims, and for me it's the moment of truth in our industry. People buy a promise, and they only know if it was a good purchase or a bad purchase when they need to make a claim. Seeing customers as people rather than numbers is absolutely vital and it's something that Hiscox is famously brilliant at. Our claims service is genuinely a major differentiator – we continue to deliver a superb service, with really strong customer satisfaction.

Q: What have you seen so far at Hiscox that makes you optimistic about the future?
A: I think the fundamentals of the business are completely solid. The unique culture, the differentiated brand, the great people, the clever products, that's all there. It's actually been quite helpful to have someone come in from the outside and point out some of the things that we're really good at, because there are lots and lots of them. So that's what makes me most optimistic. The fundamentals of this business offer a brilliant foundation on which we can build a bigger and better business, and that's what I intend to do.

Q: Outside of work, what gives you energy?
A: I play squash. I whack a little rubber ball around a room and burn a lot of energy in a short space of time. And it's great. Hiscox is actually very good at encouraging people to take a break, do some exercise or just get out in the fresh air, so when I do get the opportunity to have a lunchtime game I find that I come back to work feeling revived and ready to go again. ■

Chairman's letter to shareholders

Dear Shareholder
2022 has been another year of focus when it comes to ensuring we have robust governance arrangements that are equipped to manage not only the risks we face but also the opportunities. The corporate governance report that follows will cover the detail of what this encompasses at Hiscox, but below are some key points from the year.

Board changes

Caroline Foulger stepped down from the Board in May, following the conclusion of her nine-year term. Pleasingly, we have experienced a smooth transition from Caroline to Donna DeMaio, who not only serves as an Independent Non Executive Director on the Board but also as Audit Committee Chair. I would like to thank Caroline for her counsel and constructive challenge over the years, which I have personally valued immensely and which the business has significantly benefitted from.

In addition, Paul Cooper joined the Board as well as the Group Executive Committee in May, following his appointment as the Group's Chief Financial Officer. Paul has over 25 years of financial services experience, including across both the retail and Lloyd's insurance markets, and joined with strong knowledge of the Group – having served as Finance Director for Hiscox UK and Europe from 2006 to 2011 during a key phase of growth. We are benefitting immensely from his experience and insights.

As we announced with our 2022 results, I will be stepping down as Chairman during 2023 following 37 years of service to the Group, including ten years as Chairman, and the Board has commenced the search for my successor. An update on this search and on the succession process will be provided to the market in due course.

Embedding the new Group Executive Committee

During his first year as Group Chief Executive Officer, Aki has established a Group Executive Committee with a combination of business unit and functional expertise, institutional knowledge and fresh thinking. This team of our most senior leaders has worked collaboratively and effectively over the course of the year to deliver strong progress against our 2022 business priorities, particularly when it comes to building connected teams with shared values and mindset, which is reflected in our best employee engagement scores for ten years (see page 3).

Listening to our people

We are now in the fourth year of our Employee Engagement Network, led by Independent Non Executive Director Anne MacDonald in her capacity as Employee Liaison. This network comprises a representative group of colleagues, with diversity of geography, business area, age, race and tenure, and meets twice yearly, with anonymised insights reported back to the Board.

These are rich discussions, which in 2022 have included rewards and benefits, hybrid working, ESG, feedback for Aki in his new role, and what our people want to see from new Group Executive Committee members. As a result, the views of our people have constructively helped to shape Board discussions, for example around employee engagement as we review and refine our employee proposition, and our approach to hybrid working.

Pragmatism in ESG

The accountability and oversight structures we have established for ESG continue to drive healthy debate on our role in the transition to a net-zero economy (see page 60). We take a pragmatic approach to ESG, including climate-related issues, which can be seen not only in the progress we are making to reduce our exposure to some of the worst carbon emitters as we adapt to our ESG exclusions policy, but also in our work with clients to ensure an orderly transition. We also recognise the importance of comparable disclosures, which is why we continue to contribute to a range of independent indices, and this year we were particularly pleased to see our MSCI ESG rating upgraded from an A to an AA. Our second year of TCFD disclosure, in line with the FCA requirements, can be found on pages 60 to 67.

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

Corporate governance framework

The corporate governance framework throughout Hiscox supports the delivery of our values, culture, strategy and business objectives.

The Board's formal corporate governance framework includes the Board, the Hiscox Group subsidiaries and the Executive internal governance structures, which together ensure the governance requirements for the Group are robust and fit for purpose. As a company listed on the London Stock Exchange, the UK Corporate Governance Code (the Code) is applicable to Hiscox, and an overview of the Company's compliance with the Code is detailed on pages 88 to 93.

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 Group governance manual (the Manual) details the wider corporate governance framework including the overall legal entity structures and relationship with the business units, the division of responsibilities between Group and principal subsidiary boards, Board process and procedures for issues such as Non Executive Director appointments, diversity requirements and Board evaluations, and the principles to be applied to the wider subsidiary management. The Manual is approved by the Board and regularly reviewed. The Company also benefits from a strong governance framework at a subsidiary level. The Manual and the supporting subsidiary governance manuals ensure that the underlying processes throughout the subsidiary boards follow consistent and effective governance practices. The division of responsibility between the Board and the boards of the Group's principal subsidiaries is understood throughout the Group and is visually represented in the Hiscox Group governance model (available at **hiscoxgroup.com/investors/corporate-governance**).

The model shows the relationship between the Board exercising strategic direction and oversight of the Hiscox Group, and the subsidiary boards' delivery of their respective entity's responsibilities. This is further detailed in explicit terms of reference and governance manuals for the principal subsidiaries – ensuring alignment to the overall Group approach to values, purpose, culture of risk awareness, ethical behaviour and Group controls. Informal interaction, information flows and collaboration between Group and the principal subsidiaries are also delivered by Board Non Executive and Executive Director representation on the boards of the principal insurance carrier entities.

The Executive's internal governance structures support decision-making at the Executive level between the Group Executive Committee, the business units and the functional departments. Membership of the Group Executive Committee was refreshed in January 2022 following a review of existing leadership structures by the incoming Group Chief Executive Officer, and the resulting Group Executive Committee members are detailed on pages 76 to 77.

Supporting policies and processes

The corporate governance framework complements the Company's internal controls framework and its supporting framework of policies and processes. Key policies for the Group are published online and available to view at **hiscoxgroup.com/about-hiscox/group-policies-and-disclosures**.

The Board is satisfied that the internal control and risk management systems relating to the financial reporting process are strong, with the Audit Committee and the Risk Committee forming the central points of review and challenge. Further detail can be found in the Audit Committee report on pages 99 to 101 and in the risk management section on pages 44 to 47.

In addition, the Board and the Audit Committee – whose Chair also serves as the Group's whistleblowing champion – have oversight of whistleblowing matters and receive reports arising from its operation. The Company's whistleblowing policy is designed to ensure that the workforce feel empowered to raise concerns in confidence and without fear of unfair treatment. The structures and processes in place allow for the proportionate and independent investigation of any such matters, and for appropriate follow-up action to be taken where necessary.

Board composition

The Board has responsibility for the overall leadership of the Group and its culture. The operations of the Board are underpinned by the collective experience of the Directors and the diverse skills which they bring. The Board comprises the Non Executive Chairman, three Executive Directors, and seven independent Non Executive Directors including a Senior Independent Director.

Notable changes in the reporting period include the appointment of Paul Cooper as Group Chief Financial Officer, effective 9 May 2022, and Donna DeMaio's appointment as Audit Committee Chair, following the retirement of Caroline Foulger at the AGM in 2022, after the conclusion of her nine-year term with the Company. Biographical details for each member of the Board are provided on pages 72 to 73.

In accordance with the Company's Bye-laws and the Code, all Directors will seek appointment or re-appointment (as applicable) at the 2023 Annual General Meeting. No issues have arisen that would prevent the Chairman from recommending the re-appointment of any individual Director. In addition, the Senior Independent Director has reviewed the position of the Chairman with the Non Executive Directors, and recommends the re-appointment of Robert Childs, confirming that the Chairman continues to show the independence of character and judgement necessary to chair the Board effectively. This will be the last time Robert will seek reappointment, having announced with the Group's 2022 results that he will step down as Chairman during 2023 following 37 years of service to the Group, including ten years as Chairman. The search for a successor is underway and an update will be provided to the market in due course.

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. Additional details on Board composition and succession planning can be found in the Nominations and Governance Committee report on pages 94 to 98.

Board independence and Director duties

The Nominations and Governance Committee reviews 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.

Each Director has undertaken to allocate sufficient time to the Group in order to discharge their responsibilities effectively. Each Non Executive Director's letter of appointment outlines the commitments expected of them throughout the year and this is further detailed in the Manual. Executive Directors are prohibited from taking more than one additional non executive directorship in a FTSE 100 company. Each year, as part of the Director review process, 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 and that appropriate time continues to be available to devote to the Company. The Nominations and Governance Committee reviews the findings and determines if there is any conflict of interest. The Committee determined that there were no relationships which could cause an actual or potential conflict.

Additionally, there were no concerns regarding overboarding and all Directors had adequate time available to carry out their duties. Where Directors accepted 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 that Director's time. Approval occurs prior to a Director undertaking additional external appointments.

Onboarding and Board training

On joining the Board, all Non Executive Directors take part in a full, formal induction programme which is tailored to their specific requirements. More information on this can be found in the Nominations and Governance Committee report on pages 94 to 98.

The Board also has an ongoing training programme with regular items on topical issues. In 2022, this included, among other things: sessions on ESG horizon scanning; the impact of IFRS 17; strategic planning; redefining our employment proposition; workforce engagement; information security strategy; and control environment training. Items for training are identified in the Board, Committee and Director reviews, as well as through specific requirements and individual requests, and can be delivered via the frequent programme of Board informational sessions.

Board structure and decision-making

The Board operates within an established structure which ensures clear responsibilities at Board level, transparent, well-informed and balanced decision-making, and appropriate onward delegations to effectively deliver the Company's purpose, values and strategy.

The Board has delegated a number of its responsibilities to its Audit, Nominations and Governance, Remuneration and Risk Committees. Each Board Committee operates within established written terms of reference and each committee Chair reports directly to the Board. The formal schedule of matters reserved for Board decision and the Committee terms of reference were reviewed in late 2022 as part of the annual review of terms of reference, and copies of each can be found at hiscoxgroup.com/investors/corporate-governance. To ensure that the Board operates efficiently, the role of the Chairman, Senior Independent Director and Chief Executive are distinct to demonstrate the segregation of responsibilities.

Board cycle

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 and proposals directly.

The Board agenda is set by the Chairman following discussion with the Group Chief Executive Officer and Company Secretary, and taking into consideration feedback from the individual Directors. Board agendas focus on strategically important issues, key regulatory items 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 management reports follow a short standard format which aids discussion and understanding. The quality of Board papers is kept under regular review.

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.

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. Each quarterly cycle typically covers a series of decisions, discussions and regulatory items either at the Board, during Committee discussions, or during informal informational sessions, depending on the nature of the matter. Items for discussion may be identified from actions from previous meetings, issues escalated from management, items requested either formally or informally by Non Executive Directors, ongoing regulatory topics throughout the Group, and horizon scanning including review of the competitive landscape. Agendas are built to ensure that the most appropriate method of progressing an item is utilised. 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. Owing to this system, the Group has an effective Board which supports a culture of accountability, transparency and openness. Executive and 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.

Board attendance in 2022

In line with the agreed meeting schedule, the Board held four comprehensive meetings in 2022 (these meetings comprise meetings of the Board and of each of the Committees of the Board). In keeping with the practices developed during the early stages of the pandemic, there were an additional seven 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.

All Directors were able to fulfil their fiduciary responsibilities during 2022 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 the Company's Bye-laws). With respect to the four comprehensive Board meetings in 2022, the Directors' attendance (and the number of meetings that they were eligible to attend) was as follows: Robert Childs, Michael Goodwin, Thomas Huerlimann, Colin Keogh, Anne MacDonald, Costas

Miranthis, Lynn Pike, Joanne Musselle, Aki Hussain (4/4); Paul Cooper (3/3); and Donna DeMaio (2/3). In November 2022, Donna DeMaio was involved in a medical emergency which prevented her from attending the November Board meeting. The Deputy Chair of the Audit Committee, Thomas Huerlimann, fulfilled her responsibilities for the meeting.

There were also four meetings of each of the Committees of the Board during 2022. All of the Company's Independent 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) was as follows: Michael Goodwin, Thomas Huerlimann, Colin Keogh, Anne MacDonald, Costas Miranthis, Lynn Pike (4/4); and Donna DeMaio (2/3, for the same reason as described above). Robert Childs is a member of the Nominations and Governance Committee, Risk Committee and Investment Committee and he attended all four of the meetings that he was eligible to attend. Aki Hussain and Joanne Musselle are members of the Investment Committee and attended all four meetings. Paul Cooper is also a member of the Investment Committee and attended the three meetings he was eligible to attend.

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 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 Group Executive Committee members and senior management, to understand key issues and conduct deep dives on specialist subjects.

Board activity in 2022

Board activity in 2022 was suitably focused to ensure it covered the appropriate strategy, performance and governance items and considered the needs and concerns of our key stakeholders. This included:

- strategy and business performance, including approval of the 2023 business plan, the agreement of business priorities for the year ahead, oversight of capital management measures taken (including legacy portfolio transactions and debt refinancing), embedding the Group's strategic evolution, and further optimising operational effectiveness;
- culture and engagement, including reviewing the annual employee engagement survey, oversight of the employee proposition work done to date, and gaining new insights from the Employee Engagement Network facilitated by the Board's Employee Liaison;
- governance, including updates on key underwriting exposures, and approval of the updated risk limits framework;
- oversight of all key risks, compliance, internal controls and governance matters, as outlined on pages 44 to 46, 94 to 98 and 99 to 101.

More information on Board activities is covered as part of the annual Board evaluation process outlined on pages 97 to 98.

Board engagement with stakeholders

A key element of the corporate governance framework is open and transparent communication with stakeholders at all levels including Board level. As such, the Board regularly discusses stakeholder matters including shareholder matters, employee engagement, customers, and the Group's impact on, and relationship with, wider society.

The Board is kept abreast of stakeholder feedback and issues through reports from a variety of sources, including the Chairman, Group Chief Executive Officer, Group Chief Financial Officer, Employee Liaison, senior management and external consultants. This feedback loop is complemented by the regular dialogue that the Board maintains with the Group's key stakeholders, with the support of Executives and senior management.

The chair of each Committee of the Board is available for engagement with shareholders when required and an example of this during 2022, in relation to our remuneration policy review, can be found on page 132.

More information on how the Board engages with key stakeholders can be found on pages 48 to 49.

Board evaluation 2022

The Board encourages a culture of continuous improvement, and an important part of this is the annual review of the Board, its Committees and each Director. The Board evaluation in 2022 was internally facilitated, the details of which can be found in the Nominations and Governance Committee report on pages 94 to 98.

Board remuneration

The remuneration of Independent Non Executive Directors is determined by the Nominations and Governance Committee and is regularly benchmarked to ensure it reflects the time commitment and responsibilities of each role; there are no performance-related elements. The Chairman's remuneration is determined pursuant to the remuneration policy.

More information on Board remuneration can be found in the remuneration section on pages 106 to 143.

The role of the Board

The Board as a whole is collectively responsible for the success of Hiscox Ltd and the Group. Its duties are to:

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

This structure is supported by the Group Executive Committee, Investment Committee and a number of other management committees.

Certain administrative matters have been delegated to a committee comprising two Directors and the Company Secretary.

Audit Committee

- Advises the Board on financial reporting.
- Oversees the relationship with internal and external audit.
- Oversees internal controls including reserving and claims.

The Audit Committee report can be found on pages 99 to 101.

Nominations and Governance Committee

- Recommends Board appointments.
- Succession planning.
- Ensures an appropriate mix of skills and experience on the Board.
- Promotes diversity.
- Manages any potential conflicts of interests.

The Nominations and Governance Committee report can be found on pages 94 to 98.

Remuneration Committee

- Establishes remuneration policy.
- Oversees alignment of rewards, incentives and culture.
- Sets Chairman, Executive Director and senior management remuneration.
- Oversees workforce remuneration-related policies and practices across the Group.

The remuneration report can be found on pages 112 to 121.

Risk Committee

- 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.

More information on risk management can be found on pages 8 to 11 and 44 to 47.

To ensure that the Board operates efficiently, each Director has distinct role 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 Group Executive Committee, which delivers operational and financial performance.
- Representing Hiscox internally and externally to stakeholders, including shareholders, employees, government and regulators, suppliers and contractors.

Independent Non Executive Directors

- Active participation in Board decision-making.
- Advising on key strategic matters.
- Critiquing and challenging proposals and activities, and approving plans where appropriate.

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 Board is pleased to report that the Company has applied the principles and complied with all its provisions, except in relation to Provision 9 on Chair independence; Provision 19 on Chair tenure (as explained below) and part of Provision 25 regarding the Chairman's membership of the Risk Committee.

The corporate governance statement (pages 83 to 87), the remuneration report (pages 112 to 131) and the Directors' report (pages 148 to 151), together with the cross references to other relevant sections of the Annual Report and Accounts, explain the main aspects of the Company's corporate governance framework and seek to give a greater understanding as to how the Company has applied the principles and reported against the provisions of the Code. The Code itself can be found at **frc.org.uk**.

Chair independence and tenure

The Company complied with all of the provisions of Section 2 with the exception of Provision 9 and 19 regarding Chair independence and tenure respectively. As previously disclosed, the Chair, Robert Childs, was not deemed to be independent upon his appointment as Chairman in 2013. The Chairman has been in post since 2013 and as announced with the Group's 2022 results, will step down as Chair during 2023. Prior to 2013, the Chair served as an Executive Director (Chief Underwriting Officer for the Group) and, as such at the time of appointment major shareholders were consulted ahead of the Chair 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 independence and Board tenure to be discussed in a specific session with the Non Executive Directors (without the Chairman being present). This process is led by the Senior Independent Director. The meeting took place in November 2022 and, having also considered the views of the Executive Directors, the meeting determined that the Directors continue to highly value the Chair's skills and experience, and that he demonstrates independence, constructive challenge and engagement in the Board, as well as valuable guidance to senior management. The Board is therefore satisfied that the Chair continues to show the independence of character and judgement necessary to chair the Board effectively in this, his final year as Chair.

Separately, there are a number of further measures to ensure the robustness of these arrangements including: 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 Chair 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. This will also be a focus again in the 2023 externally facilitated Board evaluation. A similarly positive result was found in the 2021 and 2022 Board evaluations as detailed on pages 97 to 98. The Board therefore retains complete confidence in the Chair's ability to act independently, and unanimously supports his re-election at the AGM. This will be the last time the Chair will seek reappointment, having announced with the Group's 2022 results that he will step down as Chairman during 2023, following 37 years of service to the Group including ten years as Chairman. The search for a successor is underway and an update will be provided to the market in due course.

The Company complies with all of the provisions in Section 3 (audit, risk and internal control) except for part of Provision 25. The role and functions of the Audit Committee are set out in Section 3 of the Code. This includes certain risk-related responsibilities. These risk-related responsibilities are undertaken by the separate Risk Committee at Hiscox. The composition of the Risk Committee does not comply with Provision 25 of the Code, which states that the Audit Committee should comprise Independent Non Executive Directors and that the Chair should not be a member of the Audit Committee. This is because the Chairman sits on the Risk Committee. However, the Board considers the Chairman's expertise in underwriting and risk management remains a valuable asset and the Chairman is a valuable member of this Committee because of the insight he brings, which the Board considers to be beneficial to that Committee.

Requirements

1

Section 1 of the Code: **Board leadership and Company purpose**

Operation and practices

A: Board's role

Code: A successful company is led by an effective and entrepreneurial board, whose role is to promote the long-term sustainable success of the company, generating value for shareholders and contributing to wider society.

Hiscox: The Board is collectively responsible for the stewardship and long-term success of the Company. There is a robust decision-making process in place with constructive challenge and debate. Pages 24 to 37 demonstrate the Company's strong performance and position. In the corporate governance overview on pages 83 to 87, we detail the governance arrangements in place which contribute to the delivery of our strategy.

B: Purpose and culture

Code: The board should establish the company's purpose, values and strategy, and satisfy itself that these and its culture are aligned. All directors must act with integrity, lead by example and promote the desired culture.

Hiscox: Having a clear purpose and strong set of values has always been important at Hiscox as they act as a culture barometer by which the Board and wider workforce can hold each other to account (see pages 2 to 3). Procedures for regulation of Board conduct are detailed in the Group governance manual and individual appointment letters, and is overseen by the Chair of the Board.

C: Resources and controls

Code: The board should ensure that the necessary resources are in place for the company to meet its objectives and measure performance against them. The board should also establish a framework of prudent and effective controls, which enable risk to be assessed and managed.

Hiscox: One of the key roles of the Board is to oversee the delivery of strategy and annual operating plans, holding management to account on their delivery of those plans. This is assisted by a robust internal control and risk management framework (see pages 44 to 46). The Board and its Committees have unfettered access to the resources they deem necessary to fulfil their obligations.

D: Stakeholder engagement

Code: In order for the company to meet its responsibilities to shareholders and stakeholders, the board should ensure effective engagement with, and encourage participation from, these parties.

Hiscox: The Board regularly considers the Group's relationship with various stakeholder groups including shareholder matters, employee engagement, customers, and the Group's impact on, and relationship with, wider society, examples of which can be found on pages 48 to 49. The Board continues to engage with the workforce through the pre-existing infrastructure and via the employee engagement network. This ensures Hiscox is motivating and engaging employees in an effective way. The Employee Liaison is responsible for providing a summary of findings at Board meetings.

E: Workforce engagement

Code: The board should ensure that workforce policies and practices are consistent with the company's values and support its long-term sustainable success. The workforce should be able to raise any matters of concern.

Hiscox: Comprehensive and robust policies and procedures are in place. 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 2022 results can be found on page 3. The Board also engages with the workforce through its established employee engagement network, which supports the pre-existing engagement infrastructure.

Additional detail on provisions:

Provision 1: pages 44 to 47 (risk management), pages 6 to 7 (business model).

Provision 2: page 86 (Board activity), pages 106 to 143 (chapter 4, remuneration).

Provision 3: pages 48 to 49 (shareholder engagement).

Provision 4: No AGM votes below 80%.

Provision 5: pages 48 to 49 (stakeholder engagement), page 86 (Board activity).

Provision 6: page 83 (corporate governance framework).

Provision 7: pages 83 to 86 (Non Executive Director time, corporate governance framework).

Provision 8: Group governance manual and Director appointment letters.

Compliance

The Company applied all of the principles and complied with the provisions of Section 1.

Provision 5 refers to Section 172 of the UK Companies Act which is not applicable to Hiscox as a Bermuda-incorporated company. However, the material provisions of Section 172 of the UK Companies Act are substantively covered by the Bermuda Companies Act, which is the applicable legislation that the Company is required to comply with under Bermuda law. Compliance against Bermudian Director duties is detailed on page 74.

Requirements

2

Section 2 of the Code: Division of responsibilities

Operation and practices

F: Role of the Chair

Code: The chair leads the board and is responsible for its overall effectiveness in directing the company. They should demonstrate objective judgement throughout their tenure and promote a culture of openness and debate. In addition, the chair facilitates constructive board relations and the effective contribution of all non-executive directors, and ensures that directors receive accurate, timely and clear information.

Hiscox: The Chair is responsible for the leadership and overall effectiveness of the Board. The Chair drives a boardroom culture which encourages openness and debate and ensures constructive relations between Executive and Non Executive Directors, see Board cycle on page 85. The Chair, with the support of the General Counsel and Company Secretary, delivers high-quality information to the Board to enable a strong basis for decision-making. Pages 83 to 86 detail the corporate governance structures in place.

G: Composition of the Board

Code: The board should include an appropriate combination of executive and non-executive (and, in particular, independent non-executive) directors, such that no one individual or small group of individuals dominates the board's decision-making. There should be a clear division of responsibilities between the leadership of the board and the executive leadership of the company's business.

Hiscox: There is a clear division of responsibilities between the Chair, Chief Executive Officer and Senior Independent Director (see page 87). No individual or small group has unfettered powers of decision. The Board has a majority of independent Directors.

H: Role of Non Executive Directors

Code: Non-executive directors should have sufficient time to meet their board responsibilities. They should provide constructive challenge, strategic guidance, offer specialist advice and hold management to account.

Hiscox: The Group governance manual and the Directors' letters of appointment detail the requirements for the Non Executive Directors regarding their role and time expectations. These factors are subject to ongoing review, which is overseen by the Chair of the Board, and is formally reviewed in the annual Director reviews conducted by the Nominations and Governance Committee (see page 94). The duties of the Board are detailed in our Matters reserved for the Board policy, which aligns to the requirements of this principle and includes the key role of appointing and removing Executive Directors. The Matters reserved for the Board is available in the Board terms of reference at hiscoxgroup.com/investors/corporate-governance.

I: Role of the Company Secretary

Code: The board, supported by the company secretary, should ensure that it has the policies, processes, information, time and resources it needs in order to function effectively and efficiently.

Hiscox: The Group General Counsel and Company Secretary acts as a trusted advisor 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.

Additional detail on provisions:

Provision 9:
page 88 (Chair independence and tenure),
page 87 (CEO and Chair separate roles).

Provision 10:
page 72 to 73 (Board of Directors).

Provision 11:
page 72 to 73 (Board composition).

Provision 12:
page 72 to 73 (Board composition),
page 97 to 98 (Board evaluation).

Provision 13:
page 85 (Board cycle).

Provision 14:
page 87 (structure of Board decision-making),
page 85 to 86 (Board attendance in 2022).

Provisions 15 and 16:
Group governance manual and Director appointment letters.

Compliance

The Company applied all of the principles and complied with the provisions of Section 2 except for Chair independence within Provision 9 (see page 88).

Requirements	Operation and practices	Additional detail on provisions:	Compliance
3 **Section 3 of the Code:** **Composition, succession and evaluation**	**J: Appointment to the Board and succession planning** **Code:** Appointments to the board should be subject to a formal, rigorous and transparent procedure, and an effective succession plan should be maintained for board and senior management. Both appointments and succession plans should be based on merit and objective criteria and, within this context, should promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths. **Hiscox:** The Group governance manual details the commitment to a formal, rigorous and transparent procedure for appointments to the Board and effective succession planning for Board and senior management, both of which are based on merit and promote diversity. This is also detailed within the Matters reserved for the Board as part of the Board terms of reference and the terms of reference of the Nominations and Governance Committee, available at **hiscoxgroup.com/investors/corporate-governance**. The Board diversity and inclusion policy is detailed on pages 95 to 97. It details the parameters for appointments and succession planning, as well as oversight of Board and workforce diversity and inclusion policies and programmes. The Nominations and Governance Committee leads on the delivery of this principle on behalf of the Board as detailed on pages 94 to 98. **K: Skills, experience and knowledge of the Board** **Code:** The board and its committees should have a combination of skills, experience and knowledge. Consideration should be given to the length of service of the board as a whole and membership regularly refreshed. **Hiscox:** The current composition of the Board is set out on pages 72 to 73 and is considered to be an appropriate size for the business, with the right balance of Executive and Non Executive Directors with a wide range of skills and experience that contribute to the Board's performance. Length of service is considered as part of the succession planning process and this is delivered by the Nominations and Governance Committee on behalf of the Board as detailed on pages 94 to 98. **L: Board evaluation** **Code:** Annual evaluation of the board should consider its composition, diversity and how effectively members work together to achieve objectives. Individual evaluation should demonstrate whether each director continues to contribute effectively. **Hiscox:** The Board, Committee and Director evaluation process is a robust annual process which ensures that a thorough evaluation is completed each year. This internal evaluation process is supported by external evaluations, which are completed every three years, with the next external review scheduled for 2023 (see pages 97 to 98).	Provision 17: pages 94 to 98 (key responsibilities and membership, Nominations and Governance Committee report). Provision 18: pages 72 to 73 (Board composition). Provision 19: See explanation above (Chair independence and tenure). Provision 20: pages 94 to 98 (talent review and Board composition and succession, Nominations and Governance Committee report). Provisions 21 and 22: page 94 to 98 (Board evaluation, Nominations and Governance Committee report). Provision 23: pages 94 to 98 (Nominations and Governance Committee report).	The Company applied all of the principles and complied with the provisions of Section 3 except for Chair tenure within Provision 19 (see page 88).

Requirements	Operation and practices	Additional detail on provisions:	Compliance
4 Section 4 of the Code: **Audit, risk and internal control**	**M: Internal and external audit** **Code:** The board should establish formal and transparent policies and procedures to ensure the independence and effectiveness of internal and external audit functions and satisfy itself on the integrity of financial and narrative statements. **Hiscox:** The Audit Committee oversees the relationships with the internal and external audit functions ensuring their independence and effectiveness. The Committee also has oversight of the relationship with the actuarial function. The three parties work together to provide assurances to the Audit Committee and Board on the integrity of the financial statements, with external audit also providing assurances in relation to the narrative statements. The Audit Committee report for 2022 can be found on pages 99 to 101. The Directors' responsibilities statement, going concern and viability statements are set out on pages 148 to 151. **N: Fair, balanced and understandable assessment** **Code:** The board should present a fair, balanced and understandable assessment of the company's position and prospects. **Hiscox:** 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 provides information necessary for shareholders to assess the Company's position, performance, business model and strategy. The Audit Committee details how this is achieved on pages 99 to 101. **O: Risk management and internal control framework** **Code:** The board should establish procedures to manage risk, oversee the internal control framework, and determine the nature and extent of the principal risks the company is willing to take in order to achieve its long-term strategic objectives. **Hiscox:** 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 risks (referred to in this document as key risks) and the emerging risks faced by the Company. An overview of risk management can be found on pages 44 to 47. The Risk Committee leads detailed discussions on the principal and emerging risks of the Company on behalf of the Board, and recommends to the Board the appropriate risk management framework including risk limits, appetite and tolerances. The Risk Committee also oversees the independence and effectiveness of the risk and compliance functions.	Provisions 24 and 26: pages 99 to 101 (Audit Committee report). Provision 25: Audit Committee terms of reference are available at **hiscoxgroup.com/investors/corporate-governance**. Risk Committee terms of reference are also available. The Chair of the Board sits on the Risk Committee as the Board considers that this brings value to that Committee. Provisions 27, 30 and 31: pages 148 to 150 (going concern and viability statements, Directors' report). Provisions 28, 29 and 31: pages 44 to 47 (risk management).	The Company applied all of the principles and complied with the provisions of Section 4, except for part of Provision 25 as the Risk Committee membership includes the Board Chairman.

A full copy of the Corporate Governance Code 2018 can be found at **frc.org.uk.**

Requirements	Operation and practices	Additional detail on provisions:	Compliance
5 Section 5 of the Code: **Remuneration**	**P: Remuneration policies and practices** **Code:** Remuneration policies and practices should be designed to support strategy and promote long-term sustainable success. Executive remuneration should be aligned to company purpose and values, and be clearly linked to the successful delivery of the company's long-term strategy. **Hiscox:** Our remuneration policy and practices are developed by the Remuneration Committee in consultation with our shareholders. They are designed to support the Company's strategic aims, promote the long-term sustainable success of the Company, and attract and retain talent, while also being aligned with the Company's purpose, values, culture and vision (see pages 2 to 3). **Q: Executive remuneration** **Code:** A formal and transparent procedure for developing policy on executive remuneration and determining director and senior management remuneration should be established. No director should be involved in deciding their own remuneration outcome. **Hiscox:** The Remuneration Committee is responsible for setting the remuneration for all Executive Directors and senior management. The remuneration report contains details of the procedures that have 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 outcome. The Remuneration Committee receives information on broader workforce remuneration policies and practices during the year which informs its consideration of the policy (see page 128). The remuneration policy was reviewed during 2022 and is being put to a shareholder vote at the May 2023 AGM. Changes are being proposed to reward the delivery of Hiscox's wider strategy by introducing a scorecard approach to the short- and long-term incentives. Bonus deferral and post-employment shareholding guidelines are being further aligned with market practice and the circumstances that may trigger use of malus and clawback have been extended. Major shareholders' views on proposed changes to the policy were sought and they have indicated broad support for the approach. The Employee Liaison facilitates discussion with respect to the content of the remuneration policy and how this aligns to wider Company pay policy, and shares feedback on this with the Board. **R: Remuneration outcomes and independent judgement** **Code:** Directors should exercise independent judgement and discretion when authorising remuneration outcomes, taking account of company and individual performance, and wider circumstances. **Hiscox:** The Remuneration Committee leads on this area of work on behalf of the Board. Details of the composition and the work of the Remuneration Committee are detailed on pages 106 to 143. The Remuneration Committee comprises Independent Non Executive Directors only. The remuneration of Independent Non Executive Directors is determined by the Nominations and Governance Committee and is regularly benchmarked to ensure it reflects the time commitment and responsibilities of each role; there are no performance-related elements. The Board Chair's remuneration is determined in line with the remuneration policy and reviewed by the Remuneration Committee. The Remuneration Committee terms of reference can be found at **hiscoxgroup.com/remuneration-committee-tor**.	Provisions 32 and 33: pages 106 to 109 (annual statement from the Chair of the Remuneration Committee). Provision 34: pages 119 and 125 (Non Executive Director fees, Chair remuneration). Provisions 35: page 126 (consultants are highlighted in chapter 4: remuneration). Provisions 36, 37, 38, 39: pages 132 to 143 (remuneration policy). Provisions 40 and 41: pages 106 to 143 (chapter 4: remuneration).	The Company applied all of the principles and complied with the provisions of Section 5.

Nominations and Governance Committee report

"Succession was a key area of focus for the Committee again in 2022, at both Executive Director level and in relation to key leadership positions. The positive effects of new talent and fresh perspectives are already being felt."

Robert Childs
Chair of the Nominations and Governance Committee

Key responsibilities and membership

The Nominations and Governance Committee (the 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 for Non Executive Directors and by our Group HR policies for Executive Directors and senior management. The Committee also reviews the Board evaluation process, Company strategy relating to diversity, equity and inclusion, and the gender balance of both the Board and senior management. In addition, the Committee carries out several other Group activities, including a review of intragroup conflicts of interest and the approval of Group policies.

The Committee is comprised of eight members, of which seven are Independent Non Executive Directors. The Chair of the Board is the Chair of the Nominations and Governance Committee; the Senior Independent Director leads on matters relating to the Chair. The Committee's terms of reference are reviewed and approved annually and are available on the Company's website at **hiscoxgroup.com/investors/corporate-governance.**

Key activities of the Committee:

The Committee's key priorities in 2022 were as follows.

- Board Director succession, which in 2022 included ensuring a smooth transition to a new Group Chief Executive Officer, Group Chief Financial Officer and Audit Committee Chair.
- Review of the Board evaluation outcomes.
- Ongoing diversity monitoring of the Board and senior management.
- Consideration around Chairman and Director succession planning.

Talent reviews

The Committee leads on Executive succession planning via an established and robust talent review process. As required, the Committee reviews key talent plans throughout the Group. The Group review focuses on the Group Executive Committee, and their direct reports, and the Company Secretary. The outputs of the talent review process contribute to senior management performance development plans and include relevant diversity actions. This process is replicated at a business unit level to ensure a sufficient pipeline of talent in each area. Talent plans are also reviewed when vacancies arise.

Board composition and succession

As part of the annual Board succession planning process, the Committee reviewed the composition of the Board in 2022. 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. The review focused on Non Executive succession was aligned to the talent reviews for the Executive Directors. Following these formal reviews, the Board remains confident that the current skills and expertise are in place to deliver value to the Company and its shareholders. This formal annual process is augmented by ongoing open dialogue between the Non Executive Directors on succession and the skills required to deliver the strategy.

Pages 72 to 73 demonstrate the nature and breadth of each Director's relevant skills and experience. Additionally, all Directors have demonstrated that they have adequate capacity to fulfil their duties.

As part of the discussions on the requirements of new Directors, the Committee determined that the Company has a strong Board which is sufficiently capable to meet the demands of the Group and future strategy.

Diversity, equity and inclusion (DEI)

DEI has been a strategic priority for a number of years and remains critical to our development as a sustainable and resilient organisation. Hiscox operates in a global market and the success of our business is dependent on our people, which is why we want to build a workforce that reflects the make-up of our customers, the communities we serve, and the communities in which we live and work, ensuring that we have employees with different backgrounds, perspectives and experiences, with a working environment where all our people can thrive. Our belief is that diverse teams and an equitable and inclusive workplace are critical to resilience as well as sustainable growth, which in turn makes us a stronger partner for our customers. We believe it is important that the name of the function appropriately reflects the intent and work being done, which is why in 2022 we evolved from 'diversity and inclusion' to 'diversity, equity and inclusion'. We have a Global Head of DEI and a DEI Executive Sponsor for the Group, who together drive our DEI strategy and progress. This includes our DEI approach to building culture, the alignment of policies and processes with inclusion principles, building community and belonging via employee networks, and ensuring alignment to credible external DEI commitments. In addition, each business unit Chief Executive Officer and functional leader has established a DEI action plan which is aligned to our Board-approved global DEI strategy and includes aspects such as recruitment, career development, and DEI skills and capabilities development. These plans are monitored centrally and also via specific local reports to subsidiary boards. This approach is supported by an annual report on DEI which this Committee receives.

DEI policies, progress and disclosure

After we reviewed and updated our Board diversity policy in 2021, we built upon this in 2022 by refreshing our Group DEI policy which applies to our entire workforce to more clearly articulate DEI governance, refresh our principles and approach to DEI, and align with the Board DEI policy and other documentation. This iteration more appropriately reflects our intent and strategy and better meets the expectations of our industry and marketplace.

The Hiscox Ltd Board DEI policy and Group DEI policy are publicly available on our website at **hiscoxgroup.com/about-hiscox/group-policies-and-disclosures**. Both reflect the ethos of the Company in advocating that opportunity should be limited only by an individual's ability and drive. The specific objectives of the Hiscox Ltd Board DEI policy, as well as how they have been implemented and the results during the reporting period, are set out on page 96.

We have also fulfilled our UK obligations to report our gender pay gap ratios with respect to our UK subsidiaries, and published our sixth annual gender pay report during the year. This report sets out in detail the gender-related programmes and initiatives we pursued during 2022 and can be viewed at **hiscoxgroup.com/gender-pay-report-2022**.

We voluntarily report our Board and Executive management diversity data as at 31 December 2022 in accordance with the new UK Listing Rules targets and associated disclosure requirements – see page 59 for further details.

As at 31 December 2022, the Board comprised 36% women and there was one Director from an ethnic minority background. None of the four FCA-specified positions on the Board (Chairman, Group Chief Executive Officer, Group Chief Financial Officer or Senior Independent Director) was held by a woman. However, the UK Listing Rules targets do not consider other executive roles in the context of these senior Board positions and one of the three Executive Directors on the Board, our Chief Underwriting Officer, is a woman.

The Board is fully committed to ensuring diversity at all levels of the Group, as evidenced by the existence of both the Board DEI policy and the Group DEI policy. The Board continues to work towards building a pipeline of diverse candidates and this, combined with the new UK Listing Rules targets, underlines the importance of the Company's efforts in this area. The Company will continue to monitor its progress against these

Board DEI objectives and 2022 progress

Board objective	Implementation	Progress
1. Ensure a diverse[1] and effective Board [1]Diversity of gender, social and ethnic backgrounds, cognitive and personal strengths.	— Annually review the structure, size and composition of the Board, including the balance of skills, knowledge and experience to assist in the development of a diverse pipeline. — Annually review Board diversity as part of the Board evaluation process. — Ensure the values of the Company promote an open and inclusive environment.	Page 75 of the report demonstrates the diversity of our Board as at 8 March 2023. Via the delivery of our Board diversity, equity and inclusion policy, we have: — maintained a gender balance in line with the Davies and Hampton-Alexander reviews since 2015 and intend to work towards the current FTSE Women Leaders Review target and UK Listing Rules target for gender balance at Board level; — had one ethnic minority Director since 2016.
2. Ensure that all Board appointments are considered on merit within the context of the strategy requirements and diversity considerations	— At least annually review the succession plans for the Board and senior management and ensure the talent review process is in place for the wider workforce. — Gender and ethnic diversity will be taken into consideration when evaluating the skills, knowledge and experience desirable to fill each role and when considering the methods to attract diverse candidates. — A search firm will normally be engaged to assist in the review of the market and they should be committed to addressing gender and/or ethnicity diversity. — All appointments must be made on merit as aligned to the needs of the Board, the Company, and its strategy and values.	Each June, the Board and Committee review the talent plans for senior management and, each November, the Board succession plans. Diversity is taken into account as part of this process. Talent reviews are replicated throughout the business.
3. Ensure that the overall workforce is diverse and inclusive	— Review the execution of the Group diversity and inclusion policy[2]. — Ongoing Board and Committee review of matters relating to employee retention, engagement and culture. [2]hiscoxgroup.com/diversity-and-inclusion-policy.	The Committee has an annual report from the Global Head of DEI. We have a Head of DEI and a DEI Executive Sponsor for the Group, who together drive our progress which includes a commitment from every business unit and functional area leader to deliver on our employee DEI targets. These plans are monitored centrally and also via specific local reports to subsidiary boards. The tables on page 59 provide a breakdown of diversity at Hiscox. The Board and Committees receive reports relating to key workforce matters on an ongoing basis, including employee retention, engagement and culture.

targets over the course of 2023 and will provide a further update in the 2023 Annual Report and Accounts.

Our employee networks (ENs), which focus on building communities and support around a variety of employee populations, expanded in 2022 to include disabilities and neurodiversity. Along with our Pan-African, Generations, Latino, Parents and Carers, Pride (LGBT+), WeMind (mental health), and Women's ENs, these groups support our DEI strategy by helping to drive positive employee engagement and promoting a culture of inclusion.

We are committed to improving our diversity at all levels, to ensure our workforce reflects the customers and communities that we serve and the communities where we live and work. In some of the jurisdictions in which we operate, current laws mean it is not possible to collect ethnicity data from employees, but where we can we encourage employees to self-identify. In 2022, we expanded the diversity data we collect in Bermuda, the UK, and the USA to include more categories and expand some of the options within the categories for better coverage of diversity characteristics. Expanding the categories and options we offer helps us make the invisible more visible, build a more complete picture of our workforce (including intersectionality), understand our progress against our strategy, and better enables us to make smarter, more inclusive programme and policy decisions. As such, improving the volume of voluntary disclosure from employees remains a focus area and while that work continues we are pleased to be disclosing all-employee ethnicity data, as far as we are able to currently, for the first time in this report.

We will look to build on this good work in 2023 and beyond by strengthening our ability to leverage data and insights, building our DEI skills and capabilities, inspiring others with our story, and embedding DEI into business as usual. Together, these initiatives will strengthen the diversity measures we already have in place and build the maturity of the DEI landscape at Hiscox.

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 action and development. Board and Committee effectiveness evaluations are carried out each year and the results are reviewed and discussed at the Board and its Committees – specifically the Nominations and Governance Committee, with a focus on Board composition.

2022 Board and Committee effectiveness review

Every third year, the Board evaluation is undertaken by an external evaluator. This was last undertaken in 2020 and is next scheduled for 2023. In the interim years, an internal evaluation is carried out which also reviews each Committee, the Board and individual Directors. The evaluation also assesses the completion of the prior year's actions. Each is addressed in turn below.

2022 evaluation

Building on the work of prior years, the interim year evaluation was carried out using our improved evaluation process of Board, Committee Chair and individual Director performance. The Board and Committee reviews focused on, among other things: Board oversight of strategy; risk management performance and effectiveness of systems; Board accountability, focus and priorities for the coming year; Board composition; culture of the Board and the broader organisation; Board and Chair independence, expertise, decision-making and dynamics; succession planning; Board progress on diversity, climate change approach and digitalisation; communication with shareholders; clarity on purpose, direction and values; and Board support. The format of the evaluation was a confidential survey of the Board. This review was completed by all Directors, with the results analysed by the Company Secretary, shared with the Chairman and discussed with the Board.

Individual Director reviews are an opportunity to discuss individual skills, training requirements, succession and any other issues. Each Non Executive Director completes a self-assessment form which is followed by a detailed discussion on performance with the Chairman. The Senior Independent Director carries out the Chairman's review and this supports the annual review process of the Chairman. Individual objectives and action plans are agreed following each meeting where appropriate.

2022 Board review outcomes

The 2022 Board results demonstrated continued strong Board, Director, Chair, and Committee performance and re-affirmed the independence of the Board, the appropriate leadership provided by the Chair, and the robustness of the Non Executive Director succession plans and Executive Director talent reviews. Directors were fully engaged with the Board, Committee and Director evaluation process. The review was positive with continued robust decision-making and a Board culture which fosters constructive discussion.

The Board continues to engage in continuous improvements with the annual review process being an explicit point of reflection on ongoing actions and new areas of focus. The Directors determined to focus on the following matters in 2023:

- people and succession planning – further focus on workforce DEI, employee engagement, and long-term succession planning for senior management, Independent Non Executive Directors and the Chairman;
- strategy – continue to review iterations of the strategy to further address risk, operations and the competitor environment in a fast-changing world;
- IFRS 17 – oversight of IFRS 17 and understanding the business changes and peer positioning on this in addition to the financial changes;
- ESG – further focus on the development and communication of ESG initiatives in line with changing expectations and regulation. This will also include a continued focus on the diversity of the Board, particularly given that a number of Directors will be coming to the end of their term on the Board over the next three years.

Additional topics for review were identified as part of the Board evaluation which will influence the agendas and training plans for the year.

In light of the finding that the Board continues to perform well and function effectively, it is not anticipated that there will be any changes to Board composition as a direct result of the Board effectiveness review conducted this year. However, as set out in more detail on page 96, the Board is cognisant of its commitment to diversity in all its forms and intends to work towards the current FTSE Women Leaders Review target and UK Listing Rules target for gender balance at Board level.

The Board welcomed the review's conclusions with the feedback directly linking to ongoing Board developments. The Chair owns the response to the findings, and will report on their delivery in the 2023 Annual Report and Accounts.

2021 Board effectiveness review – progress against identified actions

The Board and its Committees have made tangible progress against the action points identified during 2022:

- focused on the succession of Executive Directors and other key leadership positions as detailed in this report, including ensuring a smooth transition to the new Group Chief Executive Officer, Group Chief Financial Officer and Audit Chair;
- continued the review of the Group's strategy to further address risk, operations and competitor environment in a fast-changing world;
- continued to drive accountability and excellence in execution, including the continued monitoring of progress against the Company's business priorities and key projects, and building on new management information to further increase the linkage between objective setting and monitoring;
- continued discussions on strategy, including business mix and capital allocation;
- devoted time to considering changes in the external environment and their impact on Hiscox, including competitor activity in key markets, further work on the Company's strategic response to climate change and further deep dives on social and governance matters, as well as oversight of the Group's compliance with new accounting standards (IFRS 17) to understand the business and financial changes required, in addition to peer positioning; and
- maintained a focus on talent management, employee engagement and the retention of high performers including further focus on workforce DEI and employee engagement.

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. The Committee meets four times a year to coincide with key points in the Company's financial calendar. Working with both management and the external auditor, the Committee reviewed the appropriateness of the interim and annual financial statements, concentrating on:

- 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.

Following the transition of the Committee Chair role to Donna DeMaio in May 2022, the Committee is comprised of seven independent Non Executive members. The Committee has recent and relevant finance expertise and competence relevant to the insurance sector.

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 ensured that the external auditor, PwC, displayed the necessary professional scepticism its role requires. The significant issues considered by the Committee in relation to the 2022 Annual Report and Accounts were as follows.

i) Reserving for insurance losses

As set out in our significant accounting policies on pages 179 to 180, the reserving for insurance losses 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 the key judgements within those estimates. The Committee reviewed and challenged the key judgements and estimates in valuing the insurance liabilities.

During the year, the Group was impacted by two major events, Hurricane Ian and the Russia/Ukraine conflict. It is important that the Company can quickly, and with a reasonable degree of reliability, estimate the gross and net losses arising from these events. The Committee received presentations from the Chief Actuary and management on the process undertaken, and the judgements arrived at, to establish these key estimates. The Committee is satisfied with both the process that was conducted and the reporting and disclosure of the resulting estimates.

The Group is also impacted by the current high inflation environment, with explicit allowance for this added into reserves over the year. The Committee received presentations from the Chief Actuary and management on the process undertaken, and the judgements arrived at, to establish these explicit loadings. The Committee is satisfied with both the process that was conducted and the reporting and disclosure of the resulting estimates. The Chief Actuary also detailed the remaining insurance risk given the significant uncertainty in future inflation rates, however, the Committee notes that the Group continues to adopt a prudent approach where uncertainty exists.

The Company continues to keep Covid-19 losses under review, continually evaluating loss estimates based on entity-specific historical experience and contemporaneous developments observed in the wider industry when relevant. The Committee received detailed presentations from the Chief Actuary and management relating to the latest information and the recommendations arising therefrom. The Committee is satisfied with both the process that was conducted and the reporting and disclosure of the resulting estimates. 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 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 2022 was appropriate.

ii) The recoverability of reinsurance assets

The Committee received an update on the credit risk exposures to reinsurers. 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. The Committee is satisfied with the approach taken and the recoverability of reinsurance assets.

iii) Going concern assessment and longer-term viability statements

The Committee noted the Group's going concern statements included in the Interim Statement and in this Annual Report and Accounts, and the assessment reports prepared by management in support of such statements. More information on the going concern and viability statements can be found on pages 148 to 149.

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 factors underlying the valuation process. The Committee received updates on impairment testing and the analysis performed by management, and assessed the appropriateness of the assumptions made. The Committee is satisfied with the approach taken and the recoverability of the goodwill and intangible assets.

v) Accounting for the defined benefit scheme

As explained in note 2.15 to the financial statements, the Group recognises the present value of the defined benefit obligation, less the fair value of plan assets at the balance sheet date. The Committee reviewed the key judgements and estimates used to measure the pension scheme net liability or asset position, and the results of the independent pension valuation report. A new funding agreement was signed in 2022 and the impact of this was assessed, with specific analysis of the minimum funding requirements of IFRIC 14 and the asset ceiling requirements of IAS 19. The Committee is satisfied that the assumptions used to measure the pension scheme are reasonable and that appropriate disclosures are provided in the Annual Report and Accounts.

vi) 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 notes 17 and 20, 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 equities and investment funds, a small proportion relies on a higher degree of judgement. The impact of the Ukraine conflict on a small number of investments was reported to the Committee.

The Committee, through the Investment Committee, receives reports on the portfolio valuation and is content with the process and the estimates reported. Sensitivity analysis on valuation of assets is captured within the financial risk section (note 3.3 to the financial statements) of the Annual Report and Accounts.

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 assumptions regarding recoverability of deferred tax assets remain consistent with prior years. The Committee reviewed the underlying assumptions for the recognition of deferred tax assets, principally the availability of future taxable profits and utilisation period.

Controls and corporate governance

The Committee received quarterly updates on the effectiveness of the financial control environment. In addition, the Committee was updated on expected changes to governance and audit with a focus on internal controls and enhancing the financial control framework. An approach to assess and implement the new requirements was proposed. The Committee was also given updates on various FRC papers published in 2022 on corporate reporting.

Environmental, social and governance (ESG) reporting

The Committee was updated on ESG reporting matters including external developments such as activity by the International Sustainability Standards Board (ISSB). As the demand for ESG-related disclosures increases, it is important that Hiscox demonstrates its commitment to environmental, social and governance factors. The Committee will play a key role in assessing the controls and assurance over these disclosures going forward.

Insurance contracts (IFRS 17) and financial instruments (IFRS 9)

The Committee received regular updates on the Group's IFRS 17 *Insurance Contracts* programme with an increasing focus on the preparedness of the Group to implement the new standard.

The Committee monitored the implementation of the systems, communication plan, processes and operating model to support the delivery of the new financial reporting requirements. In addition, the Committee reviewed and approved material methodologies, policies, assumptions and reporting metrics, supported by a number of Board technical training sessions. This included reviewing and challenging the methodology and key judgements underpinning the preparation of the opening balance sheet under IFRS 17. The Committee received regular updates from PwC in relation to the progress and findings from their assurance work.

The Committee concluded that the disclosures in respect of IFRS 17 included in note 2, basis of preparation, are appropriate for inclusion in the Annual Report and Accounts.

The accounting policy changes and implementation impacts of adopting IFRS 9 *Financial Instruments* from 1 January 2023 were presented to the Committee.

Internal audit

The Group's Chief Auditor provided quarterly updates to the Committee on the progress of the internal audit plan, the outcomes of recent audits, the progress of audit-related actions, and any other relevant activities including its key performance measures and the development of its resources. Updates on aspects such as the assessment of internal audit's effectiveness and the review of the internal audit policy are shared annually. The internal audit plan is derived using a risk-based approach. In 2022, key themes included core underwriting and claims controls, pricing, business and IT operations, change, financial control, data governance and controls, ESG and various regulatory themes.

External auditor

PwC has been the Company's external auditor since 2016 following a tender process. 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 financial statements.

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.

To safeguard auditor independence and objectivity, non-audit services are not 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 Committee has assessed the independence, effectiveness and quality of the external audit process. This assessment considers the Committee's interactions with the external auditors and considers a variety of issues, including: the external auditors' experience and expertise; their professional scepticism and approach to challenging management where necessary; their efficiency in completing the agreed external audit plan; and the content, quality and robustness of their reports. The Committee also takes into account the perspectives of those in senior management who interact with the external auditors on a regular basis. This process forms the basis for the Committee's recommendation to shareholders to reappoint the external auditor and no substantive concerns were raised by the Committee this year.

Fair, balanced and understandable

The Committee assessed whether the Annual Report and Accounts, 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.

Donna DeMaio
Chair of the Audit Committee

Q&A:

with Nicola Grant
Group Chief Human Resources Officer

People person

It's been a busy year for Hiscox – refining its employee proposition and evolving its hybrid-working model – and now the Company is looking to better promote its unique culture to potential employees. >

Nicola Grant joined Hiscox in September 2022 after 17 years with ING, bringing considerable experience in HR transformation, organisational development and design, talent management and diversity, equity and inclusion. Based in London, her role involves developing the Group's people strategy and leading a team of 95 HR professionals around the world.

Q&A:

with Nicola Grant
Group Chief Human Resources Officer

Q: Before joining Hiscox you worked for ING in New York, then Amsterdam. How did that experience of working abroad prepare you for overseeing HR in a company with a global footprint?

A: Working abroad, you learn a lot about yourself, and you learn a lot about adapting to the environment in which you work. You also learn how important it is to think in an inclusive, global way. For example, hosting calls in the morning on the East Coast of the USA when people have to dial in from the West Coast doesn't create good experiences for all. You'd get up at 5am for these calls, absolutely exhausted, then they'd be cancelled ten minutes before. I became much more aware of simple things like that, which make such a big difference to how people feel. In Amsterdam, I had to work very hard to build relationships and gain buy-in from people in an office where English wasn't the first language, so I learnt what that feels like. What really sticks with me though is how intentional you have to be to make everyone feel included. That's something I'm very, very passionate about.

Q: What persuaded you to make the leap to Hiscox?

A: I'd been with ING for 17 years and I loved it there. I needed the next move to be the right one. I'd talked with other financial institutions, but culturally we weren't aligned. When I got a call about Hiscox, my first thought was: *"I don't think insurance is for me"*. But I remembered that, 20 years ago, I'd heard about Hiscox having a forward-thinking sabbatical policy, so I agreed to have a conversation. I met with Aki, and there were a couple of things about that conversation that I found exciting. Hiscox is going through this transformation from a big-small company to small-big company, and the opportunity to influence that shift was something really compelling. He was also completely authentic, and that was true of all of the people I talked to here. I genuinely felt that the culture would align with my own values, and for me that's the most important thing.

Q: Based on your own experience, does more need to be done to promote Hiscox's employer brand to potential employees?

A: Hiscox is at a really exciting point in time, where I think the opportunity to shout about our employer brand is huge. As someone coming in with a fresh perspective, I can honestly say that I do think Hiscox is unique, and so we mustn't undervalue just what a special thing our culture is. That 'human' value is really lived, it's such a lovely, friendly, caring organisation, but also one filled with smart individuals performing at an incredibly high level. Had I not heard about our sabbatical policy all those years ago, and remembered it because it was ahead of its time, I might have thought: *"Insurance, boring, I'm not interested"*. I think a lot of people have that thought process, so we need to invest in branding ourselves as an employer of choice, which is where we want to be, and getting there is absolutely a priority of mine.

Q: How do you go about getting that message out there?

A: It's a number of things. We've been busy refining our employee proposition – our promise to employees, if you like – and we have to start activating that in the external environment. One thing we need to do is leverage our alumni in a stronger way. Throughout the organisation, we have a lot of what we call 'boomerangs'. These are people who leave Hiscox but come back, which I think says a lot about the Company and its culture. I also think we have to be intentional about how we position ourselves in universities and in other places in the community where there's the potential to start hiring. I think we have a real opportunity to differentiate ourselves there.

Q: You mentioned the employee proposition. How has that been changing?

A: We've made some quick tactical interventions to improve the employee proposition while we work on the bigger, more strategic piece of work. One of the main things is the concept of 'time out', which includes a more modern sabbatical policy, so that instead of having to wait ten years, we now offer a four-week sabbatical for every five years of employment. We also introduced 'Hiscox days': people can take two extra days off every year for whatever they want – religious holidays, birthdays or just a duvet day. So far, we've seen them used on everything from school sports days to people renewing their wedding vows and I just love to hear those stories. Then, from January 2023, people can buy additional holiday. People want more flexibility, they want more choice, and

"Hiscox is at a really exciting point in time, where I think the opportunity to shout about our employer brand is huge. As someone coming in with a fresh perspective, I can honestly say that I do think Hiscox is unique, and so we mustn't undervalue just what a special thing our culture is. That 'human' value is really lived, it's such a lovely, friendly, caring organisation, but also one filled with smart individuals performing at an incredibly high level."

"We also introduced 'Hiscox days': people can take two extra days off every year for whatever they want – religious holidays, birthdays or just a duvet day. So far, we've seen them used on everything from school sports days to people renewing their wedding vows and I just love to hear those stories."

they want more time out of the office, so that's what we've tried to deliver with this new suite of benefits.

The other differentiating benefit is the introduction of HSX:26, which extends the concept of ownership – one of our values. Every permanent employee has been issued with stock that will vest in 2026, so every employee is now an owner of the Company. HSX:26 is still open, so we can offer a pro-rated grant to new hires up until 2024, which is phenomenal.

Q: What's next?
A: The work around employee proposition won't stop. We're hosting some focus groups to further refine our employee proposition promise. There are a couple of other things we need to look at too. One is around capabilities. Which capabilities are we going to invest in in the future, which of those capabilities will differentiate us as an employer and give us the edge in the market? The other is our approach to talent management. More people than we would like say that their primary reason for leaving is career development, so we have to learn from that and we have to be more intentional about talent and career development for staff. That's something that is definitely a priority for next year.

Also, we continue to build our digital capabilities and from a people perspective that's something I'm interested in – how can we free people up from what I'd call analogue tasks in a way that's exciting for our people, but that also enhances our abilities to develop our talent?

Q: The introduction of hybrid working has been a big change in recent years. How is that evolving?
A: We've moved away from what employees told us was 'rigid flexibility', where we said: *"You need to return to the office x-days a week".* Instead, we've introduced a much more collaborative approach within the teams where they work things out according to their needs and define this through a co-created team charter. That's gone down incredibly well. I really do believe all leading organisations will continue to move towards activity-based working. We're not going to go back to five days a week in the office – that ship has sailed. I think the challenge is: how do you create the community and the connection, and maintain our amazing culture, when you don't see each other very often? I think orchestrating that is quite challenging, so that's where we're going to spend the time over the next year.

Q: Looking across the Group, are you able to maintain a consistent culture that crosses borders?
A: A strong internal culture can live in all places. Everything we do needs to be congruent. We have to signpost our values and culture, and the context in which we operate needs to support them. So, for example, our offices – the look and feel – should be similar throughout the organisation. Our managers should have the same level of capability throughout the organisation and the same approach to management. Our tooling, whether it's performance management or our approach to talent, should be uniform. All of these things tell a story. I've been to quite a few countries now and my observation is we do this well and they're all pretty consistent, so maintaining this will be a priority as we scale.

Q: Outside of work, what gives you energy?
A: Walking my dog in the fields in the morning. That's a really important little bit of 'me' time and sets me up for the day ahead. ■

Annual statement from the Chair of the Remuneration Committee

"Our remuneration strategy is designed to attract and keep talented, ambitious people and foster a culture that encourages sustainable high performance. Our aim is to deliver strong returns across the insurance cycle and create long-term value for our shareholders."

Colin Keogh
Chair of the Remuneration Committee

Dear fellow shareholder
2022 was a year of progress for Hiscox. The Group delivered a strong underwriting profit of $269.5 million, the highest for seven years, representing an ROE of 10.8% from the core business, in a year which has included a range of significant natural and man-made catastrophes. Hurricane Ian losses were much lower than they would have been had we not reduced our exposure to under-priced business. Hiscox has achieved a combined ratio for retail within its target range a year ahead of market expectations and internal targets; the bench strength of talent at a senior leadership level was bolstered with a number of new appointments, including Paul Cooper who joined the Executive team earlier in the year as the new Group Chief Financial Officer, bringing fresh thinking to the top table; and employee engagement scores reached their highest level in ten years.

The Remuneration Committee has been busy reviewing our remuneration policy and consulting with shareholders in light of the forthcoming policy review. As a result of this process, we have proposed a number of changes which we believe will ensure that our executive remuneration fully supports achievement of our strategic objectives and motivates continued high performance on behalf of shareholders – including our financial results but also our wider role as a responsible employer, insurer and corporate citizen.

The Committee is focused on ensuring that we are rewarding performance that is sustainable. As such, we plan to introduce non-financial performance measures under our incentive plans for the first time as we look to further focus Executive Directors on leading measures of performance. Our customers are at the heart of what we do and their experience of dealing with us is becoming an increasingly key part of our overall performance, particularly given our growing retail focus. Likewise, we know that there is a strong relationship between employee engagement and company performance, and we believe that making Hiscox a great place to work is in shareholders' long-term interests, in addition to being valuable in its own right. We are also conscious of the impact we can have as a business on the environment, which is why we propose to allow scope within our long-term incentive plan for the addition of ESG-related targets. We anticipate that our use of non-financial measures will evolve as we continue to develop our approach over the coming years, in line with our strategic aims and evolving market practice.

The 2021 Annual Report and Accounts included details of the Group's strategic evolution as Hiscox seeks to build more balanced portfolios in the big-ticket businesses, alongside the significant structural growth opportunities that exist in our retail operations. This strategic evolution means that the profile of our returns is expected to change over time and this – along with the continuing volatility in market conditions – formed part of the Committee's decision-making around incentive targets and how they calibrate with pay outcomes for 2023 and beyond (described below). Our objective was to ensure the strongest possible ongoing alignment between Executive pay outcomes and shareholder interests in the context of market change.

Remuneration policy review

The comprehensive policy review confirmed that, overall, our framework continues to operate effectively, supporting our aims of delivering strong returns across the insurance cycle and creating sustainable long-term value for our shareholders. Nevertheless, we are proposing some improvements, set out below, with three key objectives in mind:

- to align the policy with good remuneration practice among UK-listed companies;
- to reduce any unnecessary complexity and volatility within the framework; and
- to appropriately reinforce our environmental, social and governance (ESG) responsibilities.

Throughout the review process, shareholders have provided valuable, constructive feedback on the proposals and on behalf of the Committee, I would like to thank all those who contributed.

Performance measures for incentives

Our incentives have previously been based only on financial measures, with a discretionary overlay to account for non-financial performance. The Committee intends to add formal non-financial metrics into the framework of both the bonus and long-term incentive plan to reflect the Group's wider strategic objectives and align with developing market practice among UK-listed companies. The non-financial metrics have been carefully selected to be relevant to business performance.

Annual bonus

The annual bonus is intended to align reward with the achievement of key annual objectives. We are proposing in the policy to base up to 25% of annual bonus awards on non-financial performance measures. The majority of the bonus opportunity (75% of the total) will still be based on financial metrics which remain the primary driver of bonus awards. Given the importance of our customers and colleagues, for the 2023 annual bonus we propose the introduction of employee and customer engagement metrics – each weighted at 5% of total bonus. The customer and employee metrics are direct drivers of business growth and performance, so fully aligned with shareholder value.

Employee engagement will be measured by considering our annual employee engagement survey scores, and customer engagement will be considered through quarterly claims transactional NPS results across our retail businesses.

Alongside these engagement metrics will be an individual personal objectives scorecard weighted at 15%, taking the total non-financial component of the bonus for 2023 to 25% for each Executive Director.

Long-term incentive plan (LTIP)

The LTIP is intended to incentivise and reward our Executives for delivering against long-term objectives that are focused on growth in Company value and aligned with the interests of shareholders.

The current metrics of growth in net asset value (NAV) per share plus dividends and relative total shareholder return (TSR) measured against a group of our main peers, remain key measures of our long-term success and are therefore being retained.

To complement the existing structure we are proposing to include in the policy the capacity to base up to 30% of LTIP awards in future years on non-financial measures, including an element related to our environmental impact in order to ensure that the LTIP supports the delivery of our wider corporate strategy and recognises the impact that we can have as an insurer and an investor.

As work continues in this area and having considered shareholder feedback, for 2023 LTIP awards we propose to retain our past focus on financial measures only, with a 50% weighting proposed for relative TSR and 50% for NAV growth. We will consult with shareholders again ahead of introducing an environment-related measure in future years.

Good governance changes

We are also proposing a number of smaller changes to the policy in order to ensure its continued alignment with good governance practice.

- **Bonus deferral mechanism:** the current policy includes a cash deferral structure which applies for up to two years following the end of the financial year, with a variable amount deferred depending on bonus quantum. In order to align Executive interests further with shareholders, align with market practice and make deferral simpler, we propose that deferral be applied at a flat rate of 40% of bonus with amounts deferred into Hiscox shares and released three years following the end of the relevant performance year.
- **Post-employment share ownership guidelines:** post-employment share ownership under the current policy tapers by 50% at one year post-termination. We propose to align to the Investment Association's principles of remuneration, to extend the full post-employment shareholding guideline to two years with a requirement to hold shares in line with the in-service guideline in place immediately prior to departure, or the actual shareholding on termination if lower.

- **Malus and clawback:** we propose to extend our current provisions by adding to the existing list of circumstances that may trigger the use of malus or clawback. Further details are included on page 140.

Target setting

The strategic evolution of the Group (see pages 6 to 7) has two important consequences – first, more consistent earnings growth should, over time, narrow the range of performance outcomes and, secondly, the planned increase in the contribution from retail should, again over time, reduce NAV volatility arising from underwriting.

Therefore, the Committee felt it was important to incentivise Executives to deliver long-term incremental and stable growth in earnings. We will therefore seek to incorporate these factors as we set incentive targets. For 2023 this will involve:

- slightly lower parameters for the ROE outcomes that underpin our bonus targets; and
- a narrower range of NAV growth outcomes applicable to the LTIP.

In setting the targets, we have also moved away from referencing the risk-free rate to absolute thresholds for ROE and NAV growth, reflecting both broader market practice and also the fact that the risk-free rate is forecast to remain volatile.

2022 business performance

The Group has delivered a strong result in an active year of geopolitical uncertainty, economic unpredictability and natural catastrophe losses. An underwriting profit of $269.5 million (2021: $215.6 million) and combined ratio of 90.6% (2021: 93.2%) is a testament to the disciplined execution of a refined strategy of building more balanced portfolios to drive reduced earnings volatility. Hiscox has achieved strong organic capital generation, enabling deployment of additional capital into a very favourable rating and underwriting environment while continuing to maintain a strong balance sheet and solvency ratio, and preserving a progressive dividend.

However, an excellent underwriting performance was masked by significant unrealised investment losses in our bond portfolio. This was driven by the high level of volatility in the global bond markets this year and some of the sharpest rises in interest rates on record. Most of the bond portfolio losses are mark-to-market losses, and thus accounting rather than cash losses. Given that our portfolios typically hold these investments until maturity, and the portfolio is of very high quality, we expect that these losses will unwind as the bonds mature.

Remuneration outcomes for 2022

2022 annual bonus

Pre-tax ROE, our performance metric for both Executive Director and wider workforce profit bonuses, was materially impacted by the unrealised investment losses on the bond portfolio. The Committee is firmly of the view that unrealised gains and losses in such a volatile external environment are not a helpful or fair reflection of management performance.

For the wider workforce, the Committee has decided that the fairest course is to pay bonuses on the pre-tax result after excluding the impact of unrealised investment losses on bonds in their entirety. As those bonds return to par over the next three years, we will adjust future bonus pools to remove the impact of any future gains. This smoothing effect of an accounting impact on the maturity profile of our bonds is, we feel, appropriate from a short-term incentive perspective.

For the three Executive Directors, without adjustment they would not receive a bonus in respect of 2022. Given the Group reported its strongest underwriting profit since 2015 during what has been a turbulent year, and considering the broader contribution and impact made by Executive Directors, after careful consideration the Committee determined that it would be appropriate to exclude 50% of the unrealised investment losses on bonds ($107.5 million) for 2022, from the bonus calculation. This results in an adjusted pre-tax ROE result of 6.1%.

The Committee is of the view that paying 25% of the maximum bonus opportunity to Executive Directors is a fair outcome and that payment of this level of bonus is aligned with the shareholder experience. The Committee also noted the improvement in share price performance seen during 2022 and the payment of dividends which were not impacted by unrealised investment losses.

As with the wider workforce, we will adjust the bonus pools over the next three years to remove the unwinding of the unrealised investment losses, so that there is no future benefit.

2020-2022 LTIP

Growth in NAV per share plus dividends is our performance metric for awards made in 2020, vesting in 2023. Performance averaged over 2020, 2021 and 2022 has not met the vesting threshold and therefore awards made to Executive Directors will lapse in full.

2023 remuneration

Executive Directors will receive salary increases of 5% which is below the average across other Hiscox employees in the UK of 6.1%.

Award opportunities under the bonus and LTIP arrangements remain unchanged from 2022.

Proposed changes to the performance metrics and the assessment process for both plans are outlined above. Further detail on the measures and targets are set out on pages 123 to 124.

Wider workforce

Engagement

We recognise the importance of engaging with and seeking feedback from employees on issues including remuneration to inform decision-making. One of the ways we do this is through our Employee Engagement Network, a representative group from across functions and geographies, whose sessions are facilitated by Employee Liaison and Non Executive Director Anne MacDonald and whose anonymised views are shared with the Board throughout the year. In 2022, a range of people-related topics were discussed in this forum, including new ways of working, diversity, equity and inclusion (DEI) and remuneration.

Another way in which we do this is through the Group's annual employee engagement survey, and the Committee is particularly pleased with the positive improvements in employee engagement during the year, reflecting the strategic importance placed on building connected teams post-pandemic. More information on the Group's 2022 employee engagement scores, the highest in ten years, can be found on page 3.

Rewards and benefits

Another of the Group's strategic priorities for 2022 was to take a fresh look at the experience of working at Hiscox, ensuring it remains a great place to work and build a career. This was a consultative process, with views collected from across the Group, and resulted in some significant improvements to the global benefits offering during 2022:

- **the introduction of HSX:26** – an all-permanent-staff share ownership grant, in line with our ownership value and in recognition of the critical role that all employees play in achieving our strategic objectives between now and 2026, when the shares vest;
- **a refreshed sabbatical policy** – giving all permanent staff a four-week paid sabbatical for every five years of service; and
- **the introduction of Hiscox days** – giving our people two additional days of leave to allow them to mark occasions that matter to them – from religious holidays, to family events, or something else important. These days may also be donated to a colleague.

Pay

Financial well-being is a core pillar of our benefit philosophy and is why Hiscox has been an accredited Living Wage employer in the UK since 2019. In 2022, we recognised the additional challenges of high inflation levels and an increased cost of living, and made cost of living lump sum payments of £1,500/$1,500/€1,500 to the lowest-earning portion of our workforce – with 38% of our people benefitting from a one-off payment.

Pay reporting, measurement and monitoring

In 2022, Hiscox published its sixth annual gender pay report for the UK, and the mean pay gap of 16.0% (2021: 19.1%) represents steady progress at getting more women into more senior and higher-paid roles. Since 2017, on a mean basis, our gender pay gap has reduced steadily and is now 15 percentage points lower than when reporting commenced.

While gender pay gap reporting is a UK-specific disclosure requirement, internally we measure and monitor the gap globally. This supports our continued focus on DEI and is reflected in how we nurture talent and build a pipeline of diverse leaders. For example, each business unit and function across the Group has an action plan in place that is measured and monitored and ensures we are building gender diversity into succession planning and career development as we seek to realise women's leadership potential across our business.

In summary

The Remuneration Committee is satisfied that the 2022 remuneration outcomes are aligned with the experience of shareholders and reflective of business performance. Our policy has served us well to date, but we believe that the proposed amendments reflect good market practice, align incentives with our wider strategic objectives, and will enable us to continue to retain and recruit the high-calibre leadership required to deliver in a highly competitive global sector.

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.

Remuneration outcomes for 2022

Bonus of c.25% of maximum opportunity for the Executive Directors.

Long-term performance impacted by Covid-19 events and catastrophe claims. PSP awards granted in 2020 will not vest.

Single figure of £1,390,959 for the CEO.

Summary of remuneration arrangements

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

Base salary

Competitive fixed pay.

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.

132
Read our updated remuneration policy.

Implementation of policy for 2022

Salaries for 2022:
- Aki Hussain: £750,000
- Paul Cooper: £525,000
- Joanne Musselle: £525,000

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 awarded to the CEO has been equivalent to 26% of the current maximum opportunity.

Performance metrics: disclosure of the ROE target ranges and detail around the individual performance factors used to determine outcomes for 2022 is provided on pages 114 to 117.

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

2022 actual as a percentage of maximum opportunity:
- Aki Hussain: 25%
- Paul Cooper: 25%
- Joanne Musselle: 25%

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 (60% weighting) and relative TSR (40% weighting).

2022 award as percentage of salary:
- Aki Hussain: 250%
- Paul Cooper: 250%
- Joanne Musselle: 250%

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.

2022 actual:
- Aki Hussain: 212%
- Paul Cooper: 62%
- Joanne Musselle: 243%

Paul Cooper was appointed in May 2022.

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 2023

Salaries for 2023:
- Aki Hussain: £787,500
- Paul Cooper: £551,250
- Joanne Musselle: £551,250

Salary increase of 5% in line with the average UK employee increase of 6.1%.

Maximum opportunity unchanged.

Performance metrics: 75% weighting on ROE and 25% on non-financial performance metrics. Further details are provided on page 123.

Deferral: flat rate of 40% of bonus with amounts deferred into Hiscox shares and released three years following the end of the relevant performance year.

Maximum opportunity, time horizon and holding period all unchanged.

Vesting subject to: net asset value per share growth plus dividends (50% weighting) and relative TSR (50% weighting).

2023 award as percentage of salary:
Aki Hussain: 250%
Paul Cooper: 225%
Joanne Musselle: 225%

Share ownership guideline unchanged.

Post-employment shareholding requirement: maintain the level of the in-employment shareholding guideline (or the actual shareholding on stepping down, if lower) for two years following stepping down from the Board.

Annual report on remuneration 2022

This report explains how the remuneration policy was implemented for the financial year ended 31 December 2022.

PwC has been engaged to audit the sections in the annual report on remuneration 2022 below entitled 'Executive Director remuneration' and 'additional notes to the Executive remuneration table', 'annual bonus', 'performance outcomes for 2022', 'long-term incentive plan', 'Non Executive Director remuneration table', '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 table (audited)

2022

Name	Salary £	Benefits £	Bonus £	Long-term incentive plan[4] £	Retirement £	Other[3] £	Total £	Total split: Fixed remuneration £	Total split: Variable remuneration £
Aki Hussain[1]	750,000	10,593	562,500	0	67,866	0	1,390,959	828,459	562,500
Paul Cooper[2]	340,057	6,009	237,182	0	30,732	620,273	1,234,253	376,798	857,455
Joanne Musselle	522,125	8,890	525,000	0	43,527	0	1,099,542	574,542	525,000

2021

Name	Salary £	Benefits £	Bonus £	Long-term incentive plan £	Retirement £	Total £	Total split: Fixed remuneration £	Total split: Variable remuneration £
Aki Hussain	511,000	8,308	462,150	0	46,453	1,027,911	565,761	462,150
Joanne Musselle	511,000	9,060	550,000	0	46,938	1,116,998	566,998	550,000

[1]Aki Hussain was appointed as Group Chief Executive Officer on 1 January 2022 (he was formerly the Group Chief Financial Officer).
[2]Paul Cooper was appointed as Group Chief Financial Officer on 9 May 2022 and appointed to the Hiscox Ltd Board as an Executive Director on 12 May 2022. Details of his joining package are contained on page 107 of the 2021 remuneration report.
[3]Includes Sharesave scheme discount to market value of £4,500 (see page 121), plus 2021 bonus buy-out of £253,470 paid in May 2022, plus partial 2022 bonus buy-out of £119,318, plus share buy-out of £242,985 using the middle market quotation of £9.142 on the 20 September 2022 vesting date. Dividend equivalents were added. The share price had dropped 5% between the date of grant and vest. See page 117 for more details of buy-out arrangements.
[4]2022 long-term incentives for Aki Hussain and Joanne Musselle relate to performance share awards granted in 2020 where the performance period ends on 31 December 2022. The award is due to vest on 15 May 2023. Based on the performance achieved, the awards will not vest. As the award will lapse in full there is no part of the award attributable to share price appreciation.

Additional notes to the Executive Director remuneration table (audited)

Salary

Salary reviews take place in the first quarter of the year, effective from 1 April. As noted in last year's remuneration report, Joanne Musselle's salary was increased by 2.2% from April 2022, which was below the average UK-based employee salary increase. Aki Hussain's salary remained unchanged from his 1 January 2022 starting salary. Paul Cooper's salary was effective from him commencing employment on 9 May 2022.

Base salaries for Executive Directors from 1 April 2022 were as follows:

	April 2022 £
Aki Hussain	750,000
Paul Cooper	525,000
Joanne Musselle	525,000

Benefits

For 2022, benefits provided for Executive Directors included the healthcare scheme, life insurance, income protection insurance and critical illness policies, as well as a Christmas gift and fitness cash allowance.

Retirement benefits

Aki Hussain and Paul Cooper received a 10% of salary cash allowance in the year (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 112. 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.

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 (audited)

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. 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. 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.

The bonus is structured in a way that ensures significant variability in outcomes, including the possibility of no bonus being paid. Over the past ten years there have been three occasions when the Group delivered a pre-tax ROE below the required threshold and no bonuses were paid to Executive Directors. The threshold is set annually using an investment benchmark rate and for 2022 was set at a pre-tax ROE of risk-free-rate plus 2.5%.

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 personal and strategic objectives, including adherence to specific risk management objectives. Details of the key objectives for 2022 and individual achievements by the Executive Directors are shown on page 116. The Remuneration Committee also seeks input from the Chief Risk Officer and Chief Actuary. To aid the Committee's assessment of bonus outcomes, the following framework was in place for 2022.

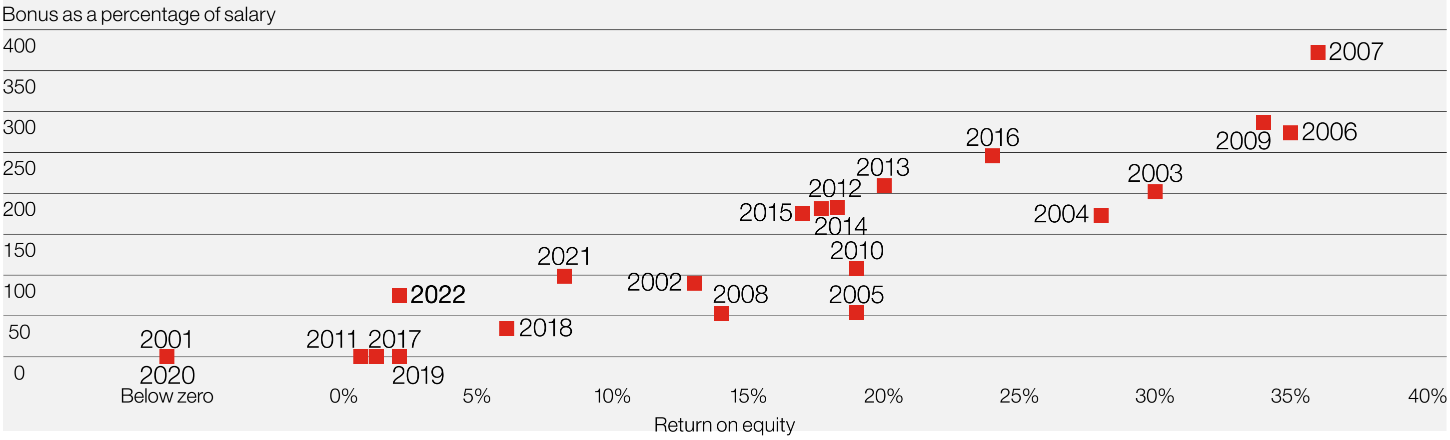
Pre-tax return on equity	Indicative bonus range (% of max)
<RFR +2.5%	0%
RFR +2.5% to RFR +10%	0-30%
RFR +9% to RFR +14%	25-55%
RFR +13% to RFR +18%	45-75%
RFR +16% to RFR +21%	65-90%
Greater than RFR +19%	80-100%

The risk-free rate (RFR) is reviewed annually. For 2022, the RFR was set at 0%.

The maximum bonus opportunity for 2022 remained unchanged from 2021, being 300% of salary for both the Group Chief Executive Officer and Group Chief Financial Officer and 400% of salary for the Group Chief Underwriting Officer. Bonuses are payable in March 2023 and are subject to deferral (in accordance with the remuneration policy approved by shareholders in 2020) and malus and clawback (see page 140 for more details).

Employees below the Board also participate in a personal performance bonus scheme. Awards under this scheme are normally based on individual performance ratings. The scheme is designed to ensure that employees continue to be motivated to perform well, irrespective of overall Group performance. The benefit is typically up to 15% of salary.

Executive Directors' cash incentives and return on equity



Pay for performance – track record

The chart above 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.

Performance outcomes for 2022 (audited)

The Group has delivered a strong result in an active year of geopolitical uncertainty, economic unpredictability and natural catastrophe losses. An underwriting profit of $269.5 million is a testament to the disciplined execution of a refined strategy of building more balanced portfolios to drive reduced earnings volatility. However, an excellent underwriting performance was masked by significant unrealised investment losses in the bond portfolio. This was driven by the high level of volatility in the global bond markets this year and some of the sharpest rises in interest rates on record. Most of the bond portfolio losses are mark-to-market losses, and thus accounting rather than cash losses. Given that our portfolios typically hold these investments until maturity, and the portfolio is of very high quality, these losses are expected to unwind as the bonds mature.

Pre-tax ROE, our performance metric for profit bonuses, was materially impacted by the unrealised investment losses on the bond portfolio. The Committee is firmly of the view that unrealised gains and losses in such a volatile external environment are not a helpful or fair reflection of management performance. For the wider workforce, the Committee has decided that the fairest course is to pay bonuses on the pre-tax result for 2022 after excluding the impact of unrealised investment losses on bonds in their entirety. As those bonds return to par over the next three years, future bonus pools will be adjusted to remove the impact of any future gains. This smoothing effect of an accounting impact on the maturity profile of our bonds is, we feel, appropriate from a short-term incentive perspective.

For the three Executive Directors, without adjustment they would not receive a bonus in respect of 2022. Given the Group reported its strongest underwriting profit in seven years during what has been a turbulent year, and considering the broader contribution and impact made by Executive Directors, after careful consideration the Committee determined that it would be appropriate to exclude 50% of the unrealised investment losses on bonds ($107.5 million) for 2022, from the bonus calculation. This results in an adjusted pre-tax ROE result of 6.1%.

The Committee is of the view that paying 25% of the maximum bonus opportunity to Executive Directors is a fair outcome and that payment of this level of bonus is aligned with the shareholder experience. The Committee also noted the improvement in share price performance seen during 2022 and the payment of dividends.

As with the wider workforce, future bonus pools will be adjusted over the next three years to remove the unwinding of the unrealised investment losses, so that there is no future benefit.

2022 key objectives and individual achievements by the Executive Directors (audited)

Key objectives	Achievements
Aki Hussain Deliver the 2022 business plan	During 2022, Aki led the business to deliver 3.6% premium growth, a combined ratio of 90.6% and a pre-tax profit of $44.7 million in a year of heightened geopolitical uncertainty, economic unpredictability and natural catastrophe losses. In addition, the Group has reported its strongest underwriting profit since 2015 and a return to the 90%-95% Hiscox Retail combined ratio range a year ahead of target. The Group has made excellent progress against its 2022 business priorities, in particular 'building connected teams with shared values and mindset', where the Group is enjoying its best employee engagement scores in ten years.
Embed the new Group strategy	The strategy Aki set out at the beginning of 2022 is now fully embedded and is designed to maximise both the profitable, cyclical growth and the structural growth opportunities ahead. It is frequently shared and talked about at all levels, and has brought greater clarity to the role of each business unit in realising the Group's ambitions. The strategy has seen the Group shift to a lower volatility profile which is positively reflected in the strong underwriting performance during a turbulent year.
Establish a high-performance leadership team	Aki has established a new Group Executive Committee with a strong combination of institutional knowledge and fresh thinking. During 2022, this included the appointment of a new Group Chief Human Resources Officer and a new UK Chief Executive Officer, the introduction of a new Group Chief Operations and Technology Officer role, and the onboarding of a new Group Chief Financial Officer.
Paul Cooper Balance sheet management	Paul has overseen the continued optimisation of the Group's capital and liquidity position. This included a £250 million debt refinancing transaction which was in excess of three times oversubscribed, demonstrated strong sentiment and market confidence in the Group, and the completion of two legacy portfolio transactions (LPTs) to reduce reserving volatility – with 23% of 2019 reserves and prior years now reinsured.
Optimising the finance function	Paul has introduced a refocused finance function structure, designed to better support the business through growth. It is centred around six core disciplines – financial planning and analysis; financial reporting and controls; actuarial, reserving and capital; investments and treasury; investor relations and tax – and will enhance existing capabilities in areas such as financial control and actuarial.
Joanne Musselle Active portfolio management	Joanne has overseen a continued focus on active portfolio management. This includes the repositioning of the US broker book completed during the year, as well as re-underwriting actions to further reduce under-priced exposure in the property binder portfolio in the London Market. These actions, alongside positive rates across all our segments, has enabled the Group to deliver a strong underwriting profit of $269.5 million, the best result since 2015, and mean that each business unit is favourably positioned for the opportunities ahead.
Underwriting through a complex environment	Joanne has led the Group's underwriting response to geopolitical tensions arising from the Russia/Ukraine conflict and macroeconomic conditions such as supply chain disruption. This included enhanced pricing and inflation monitoring to ensure rate and premium kept pace with inflationary assumptions.
Developing underwriting talent	The 'faculty of underwriting' framework for underwriting-focused technical and behavioural training, developed last year, is now fully embedded under Joanne's leadership. It has successfully implemented a series of programmes, delivering bite-size learning modules online, tailored to each stage of an underwriter's career, and has been well received – with high engagement from our underwriters and external learning awards in the UK and USA.

Bonus buy-out arrangements for Paul Cooper (audited)

Paul Cooper forfeited a full-year 2021 bonus of £355,783 as a result of his resignation from M&G plc. He was compensated with a cash payment of £253,470 in May 2022 and the remaining bonus was delivered in Hiscox shares with three-year cliff vesting, mirroring the structure of his forfeited award. The shares are included in the share buy-out table shown below.

Paul Cooper was not eligible for a bonus from M&G plc for the period of time he worked in 2022 prior to commencing employment with Hiscox on 9 May 2022. The Committee agreed to pay a time pro-rated target bonus for this period based on the M&G incentive structure which equates to £119,318. Payment will be made in March 2023 subject to Hiscox deferral rules and recovery provisions.

Long-term incentive plan (audited)

Share buy-out arrangements for Paul Cooper

In lieu of forfeited long-term incentive plan awards with his previous employer, on 17 May 2022 Paul Cooper was compensated with awards of an equivalent face value and all vesting terms were mirrored. The shares shown below are not subject to performance conditions and no additional holding period applies. Dividend equivalents are payable between the date of grant and the date of vesting in respect of each award. The Hiscox malus and clawback provisions apply. Vesting is subject to continued employment.

Vesting date	Number of shares	Market price at the date of grant* £	Market value at the date of grant £
20 Sept 2022	26,274	9.70	254,858
3 April 2023	86,780	9.70	841,766
1 April 2024	42,945	9.70	416,567
1 April 2025	11,037	9.70	107,059

*The middle market quotation on 17 May 2022, the date of grant, was 9.70.

On 20 September 2022, the first tranche of the buy-out award vested. Paul Cooper received an additional 305 shares equivalent to the dividends payable with a record date between 16 May 2022 and 19 September 2022. The total vested award was 26,579 shares.

Performance Share Plan (PSP) awards where the performance period ends with the 2022 financial year

The Executive Directors were granted nil-cost options under the PSP on 15 May 2020 for the three-year performance period 1 January 2020 to 31 December 2022.

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% p.a. = 7% p.a.	20
Maximum vesting	RFR + 14% p.a. = 15% p.a.	100
Straight-line vesting between these points		

The risk-free rate (RFR) for the awards granted in 2020 was set at 1%.

Performance outcome

Based on the three-year average growth in net asset value per share plus dividends not meeting the performance threshold of 7% p.a., the awards ending with the 2022 performance year will not vest and all awards will lapse in full.

PSP awards granted during the 2022 financial year

As disclosed in the 2021 Directors' Remuneration Report, PSP awards granted to the Executive Directors in 2022 were set at 250% of salary. Awards are based on a three-year performance period followed by a two-year holding period. 60% of awards are 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.

Executive Directors were granted nil-cost options under the PSP as shown below. Grants to Aki Hussain and Joanne Musselle were made on 8 April 2022. Paul Cooper's grant was made on 16 May 2022.

	Number of awards granted	Market prices at date of grant* £	Market value at date of grant £
Aki Hussain	190,355	9.846	1,874,235
Paul Cooper	141,646	9.636	1,364,901
Joanne Musselle	133,248	9.846	1,311,960

*The middle market quotation on 8 April 2022, the date of grant for Aki Hussain and Joanne Musselle, was 9.846. Paul Cooper was granted shares on 16 May 2022 when the middle market quotation was 9.636.

The performance condition for these awards, measured over the period 1 January 2022 to 31 December 2024, is as follows:

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%

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

The risk-free rate (RFR) for the awards granted in 2022 was set at 0%.

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 consists 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.

Executive Directors will be required to retain any shares post vest (net of tax charges) for a further two years.

Non Executive Director remuneration (audited)

The table below sets out the remuneration received by the Non Executive Directors for the financial years ending 31 December 2022 and 31 December 2021. As all Directors serve on every Committee, the Ltd fees have been aggregated into one overarching Board fee in 2022.

2022

	Ltd Board fee £	Subsidiary Board fee £	Benefits[1] £	Total Hiscox fees £	Total split Fixed £	Total split Variable £
Robert Childs (Chairman)	295,000	–	13,987	308,987	308,987	–
Donna DeMaio	116,379	39,224	–	155,603	155,603	–
Caroline Foulger[2]	45,634	43,971	–	89,605	89,605	–
Michael Goodwin	107,759	38,793	–	146,552	146,552	–
Thomas Huerlimann	107,759	51,304	–	159,063	159,063	–
Colin Keogh	130,172	106,000	–	236,172	236,172	–
Anne MacDonald	116,379	–	–	116,379	116,379	–
Constantinos Miranthis	116,379	42,241	–	158,620	158,620	–
Lynn Pike	113,793	67,241	–	181,034	181,034	–

2021

	Ltd Board fee £	Ltd Committee fee £	Subsidiary Board fee £	Benefits[1] £	Total Hiscox fees £	Total split Fixed £	Total split Variable £
Robert Childs (Chairman)	295,000	–	–	12,868	307,868	307,868	–
Donna DeMaio[3]	15,580	8,877	–	–	24,457	24,457	–
Caroline Foulger	62,319	42,754	88,681	–	193,754	193,754	–
Michael Goodwin	62,319	28,261	32,609	–	123,189	123,189	–
Thomas Huerlimann	62,319	28,261	50,862	–	141,442	141,442	–
Colin Keogh	74,638	34,783	106,000	–	215,421	215,421	–
Anne MacDonald	62,319	35,507	–	–	97,826	97,826	–
Constantinos Miranthis	62,319	35,507	35,507	–	133,333	133,333	–
Lynn Pike	62,319	33,333	56,522	–	152,174	152,174	–

[1]Benefits include life assurance and healthcare.
[2]Caroline Foulger retired from the Hiscox Ltd Board on 12 May 2022.
[3]Donna DeMaio was appointed as a Non Executive Director in November 2021.

Fees are paid in multiple currencies – 2022 fees were converted using £1: €1.15 and £1: $1.16. 2021 fees were converted using £1: €1.16 and £1: $1.38.

Membership of the Remuneration Committee

The Remuneration Committee members during the year were Caroline Foulger (retired from the Board on 12 May 2022), Michael Goodwin, Thomas Huerlimann, Anne MacDonald, Constantinos Miranthis, Lynn Pike, Donna DeMaio and Colin Keogh (Chairman).

Directors' shareholding and share interests (audited)

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. Joanne Musselle and Aki Hussain have met the requirement with holdings of 243% and 212% respectively using the closing share price on 31 December 2022. Paul Cooper was appointed to the Board in 2022 and is beginning to build his shareholding. He currently holds shares equivalent to 62% of salary.

Details of the post-employment shareholding guideline for Executive Directors which applies for a period of two years from stepping down from the Board can be found on page 138.

The interests of Executive and Non Executive Directors are set out below, including shares held by connected persons. There have been no changes in the Director share interests between 31 December 2022 and 8 March 2023.

Directors	31 December 2022 6.5p ordinary shares number of shares beneficial	31 December 2021 6.5p ordinary shares number of shares beneficial
Executive Directors:		
Aki Hussain	145,767	91,786
Paul Cooper[1]	30,045	3,466
Joanne Musselle	117,309	98,449
Non Executive Directors:		
Robert Childs	1,213,162	1,213,162
Donna DeMaio	0	0
Caroline Foulger[2]	29,000	29,000
Michael Goodwin	12,678	12,678
Thomas Huerlimann	16,112	15,927
Colin Keogh	53,980	47,600
Anne MacDonald	41,504	40,251
Constantinos Miranthis	6,832	6,832
Lynn Pike	1,538	1,538

[1]Paul Cooper was appointed to the Board on 12 May 2022.
[2]Caroline Foulger retired from the Board on 12 May 2022, her shareholding is shown as at that date.

Performance Share Plan (PSP) (audited)

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, with the exception of Paul Cooper's buy-out. The interests of Executive Directors are set out below:

Name	Number of awards at 1 January 2022	Number of awards granted	Number of awards lapsed	Number of awards exercised	Number of awards at 31 December 2022	Mid-market price at date of grant £	Average market price at date of exercise £	Date from which released
Aki Hussain	36,873	–	–	(36,873)	–	10.46	9.68	08-Apr-19
	63,250	–	(63,250)	–	–	15.46		08-Apr-22
	120,500	–	–	–	120,500	7.00		15-May-23
	144,436	–	–	–	144,436	8.59		08-Apr-24
	–	190,355	–	–	190,355	9.85		08-Apr-25
Paul Cooper	–	26,579*	–	(26,579)	–	9.70	9.36	19-Sep-22
	–	86,780*	–	–	86,780	9.70		03-Apr-23
	–	42,945*	–	–	42,945	9.70		01-Apr-24
	–	11,037*	–	–	11,037	9.70		01-Apr-25
	–	141,646	–	–	141,646	9.70		08-Apr-25
Joanne Musselle	18,000	–	(18,000)	–	–	15.46		08-Apr-22
	120,500	–	–	–	120,500	7.00		15-May-23
	144,436	–	–	–	144,436	8.59		08-Apr-24
	–	133,248	–	–	133,248	9.85		08-Apr-25
Total	647,995	632,590	(81,250)	(63,452)	1,135,883			

*Denotes buy-out award.

Sharesave Schemes (audited)

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.

Paul Cooper was granted 2,452 options during 2022 with a discount to market value in the option price of £4,500 based on saving £500 per month for 36 months.

	Number of options at 1 January 2022	Number of options granted	Number of options lapsed	Number of options exercised	Number of options at 31 December 2022	Exercise price £	Market price at date of exercise £	Date from which exercisable	Expiry date
Aki Hussain	2,500	–	–	–	2,500	7.20		01-Jun-24	30-Nov-24
Paul Cooper	–	2,452	–	–	2,452	7.34		01-Dec-25	31-May-26
Joanne Musselle	2,380	–	–	–	2,380	7.56		01-Dec-24	31-May-25
Total	4,880	2,452	–	–	7,332				

Payments for loss of office (audited)

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

Payments to past Directors (audited)

Following stepping down as Group Chief Executive Officer and as an Executive Director of Hiscox Ltd with effect from 31 December 2021, Bronek Masojada has continued providing strategic advice as a Director for key subsidiaries. During 2022, Bronek received a salary of £150,000 and was covered under the health insurance and life assurance schemes. In line with other participants who received performance-related share grants in 2020, with the performance period ending 31 December 2022, Bronek's 156,000 share award will not vest and will lapse in full. Bronek remains subject to the post-employment shareholding requirement until 31 December 2023.

Implementation of remuneration policy for 2023

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 2023, salaries for Executive Directors will be increased by 5%. This is in line with other UK-based employees where the average increase is 6.1%. Salaries from April 2023 will be as follows:

	2023 £
Aki Hussain	787,500
Paul Cooper	551,250
Joanne Musselle	551,250

Annual bonus

In determining the bonuses to be paid to Executive Directors for 2023, the Committee will base its judgement on the scorecard shown below.

Metric	Weighting	Target
Pre-tax ROE	75%	The Committee believes that ROE represents the best financial measure to assess Executive performance and is linked most closely to our shareholder returns. In line with our focus on lower-volatility returns, we propose to slightly refine the range of ROE outcomes that underpin our targets in 2023. We will also move away from referencing the risk-free rate to absolute ROE, reflecting both broader market practice and the fact that the risk-free rate is forecast to remain volatile. As in prior years, targets are considered commercially sensitive and will be disclosed in the 2023 annual report on remuneration. ROE in excess of 21% is expected to be required for maximum pay out.
Strategic personal objectives	15%	The addition of formal non-financial metrics into the bonus framework reflects the Group's wider strategic objectives and aligns with developing market practice among UK-listed companies. We are broadening our focus to include not just the 'what' but also the 'how' element of our performance and multi-year nature of strategy delivery. Targets are considered commercially sensitive and will be disclosed in the 2023 annual report on remuneration.
Retail claims transactional NPS	5%	Our customers are at the heart of what we do and their experience dealing with us is becoming an increasingly key part of our overall performance, as our business shifts to more of a retail focus. Claims management is also intrinsically linked to our brand value. Claims transactional net promoter score will be measured by an external third party across our retail operations in Europe (by country), the UK and the USA. We will derive a weighted average score every three months based on the number of responses in each market. Bonus vesting will be reduced by 25% if the quarterly score falls below 69 which we have deemed the minimum acceptable level (our current weighted average is 66). Bonus awards will be paid the following year-end based on the number of quarters in which the minimum score was met or exceeded. The Committee believes that regular measurement will focus executive attention on this key leading measure of our performance throughout the annual cycle.
Global employee engagement score	5%	Employee engagement has been proven to be strongly correlated with overall Company performance and we regard it as an important forward-looking, leading measure of our success. We also believe it is largely a function of good leadership. Engagement will be measured through an annual employee engagement survey run by an external third-party provider. Questions will focus on employees' pride working for Hiscox, as well as their level of satisfaction and advocacy for us as an organisation. Performance hurdle of 82% engagement for 20% vesting, with the maximum score of 90% or above for 100% vesting. Straight-line vesting profile between hurdle and max. The average of the last three annual engagement scores is 71%.

Long-term incentive plan: Performance Share Plan (PSP)

The maximum opportunity for the awards to be granted to the Executive Directors in 2023 will remain unchanged from 2022 at 250% of salary. Awards will continue to be based on a three-year performance period followed by a two-year holding period.

Having considered shareholder feedback in this area, the Committee is minded to focus solely on long-term financial performance for awards made in 2023. Our approach may expand in the future to include ESG-related targets and we will ensure that we take account of shareholder views as our thinking evolves. In order to allow for this, our policy will permit up to 30% of LTIP vesting based on non-financial measures but we propose to use only financial measures in 2023.

For 2023, 50% of awards will be based on stretching growth in NAV plus dividends targets, measured on a per-share basis. 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.

50% of awards will be based on relative TSR, aligned to our strategy of generating long-term value for shareholders, benchmarking those returns versus our closest listed peers.

Under the new leadership team at Hiscox, there has been a subtle but marked shift in strategy with an increased focus on building a business which can deliver growing, sustainable and attractive long-term returns. There is a renewed focus on building more balanced portfolios in each business and a heightened recognition of the long-term structural growth opportunities in our retail businesses – especially the retail digital market in the USA. This strategic tilt will have two important consequences – firstly, more consistent earnings growth should, over time, narrow the range of performance outcomes and, secondly, the planned increase in the contribution from retail should, again over time, reduce NAV volatility arising from underwriting.

To reflect the lower volatility we propose to amend the range underpinning LTIP PSP targets in 2023. In setting the targets, we will also move away from referencing the risk-free rate to absolute thresholds for NAV growth, reflecting both broader market practice and the fact that the risk-free rate is forecast to remain volatile.

The targets below represent an expected aggregate increase in shareholder value of between $462 million and $1,356 million over three years.

	Growth in net asset value plus dividends per share	Proportion of PSP vesting %
Minimum threshold vesting	$0.43 p.a.	20
Maximum vesting	$1.28 p.a.	100

Applicable to 50% of awards. Straight-line vesting between threshold and maximum.
These numbers are on an IFRS 4 basis and we will look to convert to IFRS 17.

Relative TSR	Proportion of PSP vesting %
Below median	0
Median	20
Upper quartile	100

Applicable to 50% of awards. Straight-line vesting in between each point.

The peer group consists of the following 23 companies: Admiral Group, 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 2023 are set out below. These remain unchanged from 2022. All Board members sit on each of the Committees (Audit, Remuneration, Risk, Nominations and Governance) so the Committee fees have been aggregated into the basic fee.

	2023 fees
Board Chairman and subsidiary services	£295,000
Non Executive Director basic fee	$125,000
Additional fees for:	
Audit Committee Chair	$10,000
Remuneration Committee Chair	$9,000
Risk Committee Chair	$7,000
Senior Independent Director	$17,000
Employee Liaison	$10,000
Bermuda Committee	$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. Aki Hussain held a directorship at VISA Europe Limited during 2022 and received a fee of £131,875. Joanne Musselle was remunerated £40,000 for her directorship at Realty. Paul Cooper was an unremunerated member of the board at the ABI.

External advisors

The Committee received independent advice from Deloitte and Willis Towers Watson during 2022. Willis Towers Watson was appointed by the Committee in June 2022, following a competitive tender process. Willis Towers Watson is a signatory to the Remuneration Consultants Group Code of Conduct and, as such, voluntarily operates under its code of conduct. During the year, the Committee received advice on developments in market practice, corporate governance, institutional investor views, and on the design of the Company's incentive arrangements. Total fees for advice provided to the Committee during the year were £20,650 for Deloitte and £103,734 for Willis Towers Watson, 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 provided the Company with other tax and consulting services and Willis Towers Watson also provided other consulting services to the Company.

In addition to the external advisors, the Group Chief Executive Officer and Group 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 12 May 2022, the annual report on remuneration received the votes below from shareholders. While the Directors' remuneration policy was not voted on in the most recent AGM, results from the last policy vote are included below.

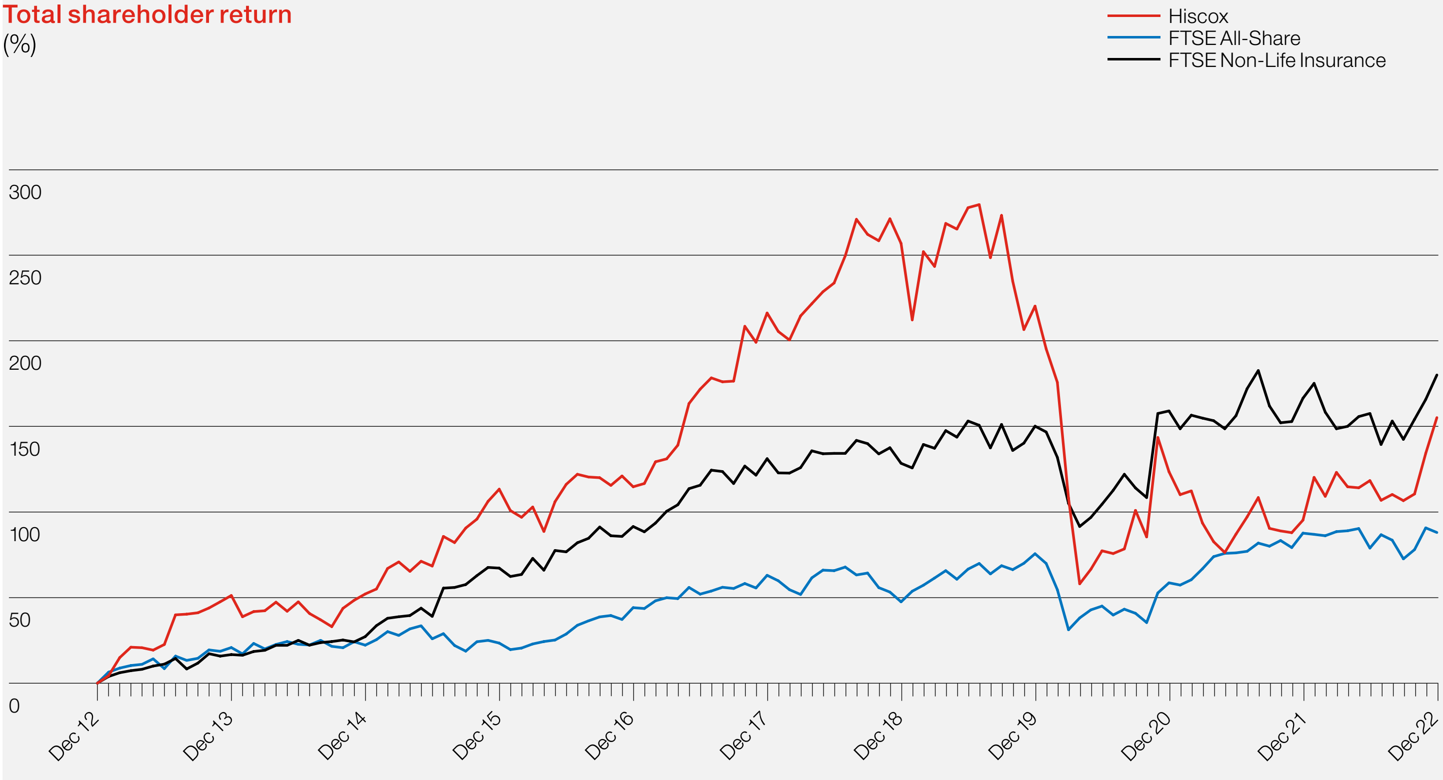
	Annual remuneration report (12 May 2022)	Remuneration policy (14 May 2020)
For	287,494,199	230,333,655
%	97.74%	95.86%
Against	6,656,862	9,949,668
%	2.26%	4.14%
Withheld	88,186	32,597
Total votes	294,239,247	240,315,920

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 2012 and 2022, Hiscox delivered total shareholder return of 155%.

Total shareholder return

(%)



Chief Executive historic remuneration

The table below shows the single total remuneration figure for the Group Chief Executive Officer for the past ten years. The Group Chief Executive Officer was Bronek Masojada up to and including 2021. From 1 January 2022 the Group Chief Executive Officer is Aki Hussain.

	2013	2014	2015	2016	2017	2018	2019	2020	2021	**2022**
CEO single figure of remuneration (£)	2,341,737	3,130,535	3,358,894	3,970,466	2,394,428	1,818,086	698,196	717,243	1,332,964	**1,390,959**
Annual bonus as percentage of current max	51	44	39	64	0	9	0	0	30	**25**
PSP vesting as percentage of maximum opportunity	53	100	100	100	85	47	0	0	0	**0**

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

Comparator data

Remuneration for the wider workforce

When considering the remuneration arrangements for senior management, the Committee takes into account remuneration throughout the wider workforce, which is based on broadly consistent principles. 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.

88% of employees responded to the 2022 global employee engagement survey, which included two reward-related questions and we receive further employee feedback via our employee engagement network led by Employee Liaison and Non Executive Director Anne MacDonald. During 2022, the employee network discussed remuneration, including how executive pay aligns with the pay approach for the wider workforce.

Cost of living payments of 1,500 (Sterling, Euro or Dollar) were made in the UK, Europe and Bermuda during 2022 to 38% of the workforce in order to provide targeted financial support to those struggling most with the current increased cost of living.

Group Chief Executive Officer pay ratio

The Group Chief Executive Officer's total remuneration compared with the median (50th percentile) remuneration of the Company's UK employees as at 31 December 2022 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 2022 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)
2022	**A**	**31:1**	**20:1**	**13:1**
2021	A	34:1	20:1	12:1
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 2022 quartile positions.

2022	P25 £	P50 £	P75 £
Salary	37,833	56,590	82,325
Total remuneration	44,180	70,449	109,293

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. The pay ratios remain suppressed as a result of the limited LTIP vesting. The expectation is that the ratios will be higher and more variable as the remuneration of our most senior executives, including the Group Chief Executive Officer, is more highly performance geared than other roles in the business.

The Committee is comfortable that the pay ratio for 2022 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 years 2020 and 2022. Salary and bonus are compared against all employees globally, benefits are compared against all UK-based employees, reflecting the location of the Executive Directors.

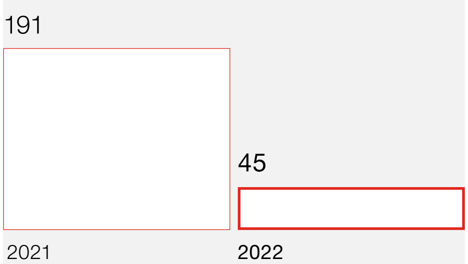
	2020 % change			2021 % change			2022 % change		
	Salary/fees	Benefits	Bonus	Salary/fees	Benefits	Bonus	Salary/fees	Benefits	Bonus
All employees[1]	4.3	5.9	(36.1)	1.8	(3.7)	147	5.8	2.6	11.6
Executive Directors:									
Aki Hussain[2]	2.8	(6.9)	N/A	2.2	3.3	N/A	46.8	43.3	21.7
Paul Cooper[3]	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Joanne Musselle	N/A	N/A	N/A	22.1	21.6	N/A	2.2	(6.4)	(4.5)
Non Executive Directors:[4]									
Robert Childs	1.7	(1.7)	–	–	10.4	–	–	8.7	–
Donna DeMaio[5]	N/A	N/A	N/A	N/A	–	–	536.2	–	–
Caroline Foulger[6]	(3.2)	–	–	(1.5)	–	–	(53.8)	–	–
Michael Goodwin	4.2	–	–	(0.7)	–	–	19.0	–	–
Thomas Huerlimann	(2.0)	–	–	(1.4)	–	–	12.5	–	–
Colin Keogh	(2.5)	–	–	32.4	–	–	9.6	–	–
Anne MacDonald	2.2	–	–	(0.7)	–	–	19.0	–	–
Constantinos Miranthis	(5.2)	–	–	5.0	–	–	19.0	–	–
Lynn Pike	(6.3)	–	–	(0.7)	–	–	19.0	–	–

[1]Median 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.
[2]Aki Hussain was appointed Group Chief Executive Officer in January 2022 and previously held the position of Group Chief Financial Officer.
[3]Paul Cooper was appointed to the Board in May 2022.
[4]Non Executive Director fees are subject to exchange rate fluctuations.
[5]Donna DeMaio was appointed to the Board in November 2021.
[6]Caroline Foulger retired from the Board in May 2022.

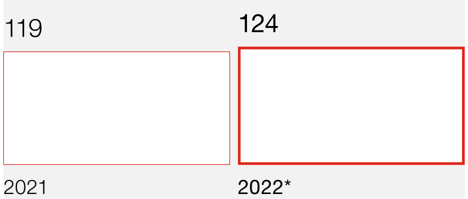
Relative importance of the spend on pay

The charts below show the relative movement in profit, shareholder returns and employee remuneration for the 2021 and 2022 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. See profit before tax on the consolidated income statement on page 166.

Profit before tax ($m)
-76.4 (% change)

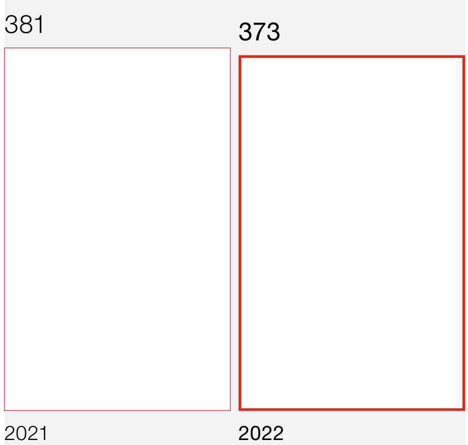


Dividend and return of capital to shareholders ($m)
+4.2 (% change)



*Includes a final dividend in respect of the year ended 31 December 2022 of 24.0¢ per share, subject to shareholder approval.

Total employee remuneration ($m)
-2.1 (% change)



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.	— Shareholders' views on the proposed changes to the remuneration policy were sought during 2022 and constructive feedback was received. — In 2022, a range of people-related topics, including remuneration, were discussed by our Employee Engagement Network, facilitated by Committee member Anne MacDonald, who also serves as our Employee Liaison. We also carry out an annual employee engagement survey and are pleased with the positive improvements during the year – resulting in our best employee engagement scores for ten years (see page 3 for further details). — The Committee receives information on broader workforce remuneration policies and practices during the year which informs its decision-making for Executive Director remuneration.
Simplicity – remuneration structures should avoid complexity and their rationale and operation should be easy to understand.	— The remuneration philosophy is a simple one: to reward performance. Hiscox's remuneration framework is simple, comprising three main elements: — fixed pay (base salary, benefits and pension); — annual bonus; and — performance share awards. — In the proposed policy changes outlined on pages 132 to 143, we are intending to further simplify the approach to bonus deferral.
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.	The remuneration policy incorporates a number of design features to take account of and minimise risk: — the Committee has the ability to apply independent judgement and override formulaic outcomes to ensure that incentive awards are 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 post-vesting holding period and post-employment shareholding requirement; — all variable remuneration is subject to malus and clawback provisions.
Predictability – the range of possible values of rewards to individual Directors and any other limits or discretions should be identified and explained at the time of approving the policy.	— The range of possible values are set out in the performance scenario charts in the remuneration policy on page 143. — Limits and ability to exercise discretion are also set out in the notes to the policy on page 140.
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.	— Variable incentive pay-outs have a strong link to Company performance. The Committee is satisfied that the remuneration outcomes for 2022, detailed on page 115, are reflective of Company performance over the respective performance periods.
Alignment to culture – incentive schemes should drive behaviours consistent with Company purpose, values and strategy.	— The variable incentive schemes, including quantum, time horizons, form of award, performance measures and targets are all designed with the Company's purpose, values and strategy in mind. — The proposed changes to the policy outlined on pages 132 to 143 allow inclusion of strategic non-financial measures. — The pay arrangements for the Executive Directors are aligned with those of the broader workforce and senior team.

Remuneration policy
Hiscox has a forward-looking remuneration policy for its Executive Directors.

The role of the Remuneration Committee is to ensure that the Company's remuneration strategy encourages enhanced performance in a fair and responsible manner and rewards individuals for their contribution to the success of the Company, having regard to statutory and regulatory requirements and the views of shareholders and other stakeholders. The remuneration approach is designed to support the Company's strategic goals and promote long-term sustainable success.

The Company's intended forward-looking remuneration policy for Executive Directors is set out on pages 132 to 143 and will be submitted for a vote at the Annual General Meeting on 11 May 2023.

Changes to the policy
The new remuneration policy has been developed by the Remuneration Committee following a rigorous review process, which took into account the views of Hiscox's major shareholders. The Committee took independent external advice on the regulatory environment, shareholder expectations and market good practice in relation to executive pay among UK-listed companies and listened to the views of Executives.

Potential changes to the policy were debated at Remuneration Committee meetings and a set of proposals were agreed and shared with investors in November 2022. The Committee Chair met with a number of shareholders and received written feedback from others.

Shareholders provided valuable, constructive feedback, particularly regarding the implementation of environment-related performance measures in our long-term incentive plan (LTIP), noting that measures should be fully aligned with the nature and objectives of the Company, as well as being robust and measurable. This feedback resulted in our decision to reserve the space in the new remuneration policy to base up to 30% of LTIP awards in future years on non-financial measures, including an element related to our environmental impact, but to focus solely on financial measures for 2023 LTIP awards as we continue to develop our approach in line with our strategic aims and evolving market practice.

We are proposing the following primary changes to our policy for 2023.

- Reward the delivery of Hiscox's wider strategy by introducing a scorecard approach to the short- and long-term incentives, allowing inclusion of strategic non-financial metrics. The maximum opportunity under these plans will remain unchanged.
- Bonus deferral – in order to align with market practice and make deferral simpler, bonus deferral will be applied at a flat rate of 40% of bonus with amounts deferred into Hiscox shares and released three years following the end of the relevant performance year.
- Post-employment shareholding guidelines – in recognition of the Investment Association's Principles of Remuneration, Executive Directors will be expected to maintain an interest in Hiscox shares for two years after they step down from the Board at the level of the in-employment shareholding guideline (or the actual shareholding on stepping down, if lower).
- Malus and clawback – the circumstances that may trigger use of malus and clawback by the Committee have been extended under the short- and long-term incentive plans.

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 2023 are set out on page 122. 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, where 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. **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 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 Company strategic priorities. To provide a direct link between reward and performance. To provide competitive compensation packages.
Operation	Performance metrics and targets are set annually. The payment outcome at the end of the performance period is based on an assessment of the level of performance achieved with reference to the performance targets set at the start of the year, including an assessment of risk factors. Amounts are paid in accordance with the bonus deferral mechanism described on page 136. 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 140.
Maximum potential value	The maximum bonus opportunity for the Executive Directors will be as follows: — Group Chief Executive Officer and Group Chief Financial Officer – 300% of salary; — Group Chief Underwriting Officer – up to 400% of salary. Where performance is deemed to be below acceptable levels, pay-outs will be nil.
Performance metrics	Performance is assessed against relevant financial and non-financial targets designed to incentivise the achievement of Company strategy. The Committee has the discretion to determine the specific performance conditions attached to each bonus cycle and to set annual targets for these measures with reference to the strategy approved by the Board. The financial measures used will typically include return or profit-based targets. Up to 25% of the bonus can be based on non-financial measures including environmental, social and governance (ESG) related measures. For the measures and weightings to be used in a particular year, please refer to the annual report on remuneration. The discretion available to the Committee in assessing the achievement of the performance targets is as set out in the notes to the policy table on page 140.
Application to broader employee population	The operation of the annual incentive is consistent for the majority of employees across the Group.

Future policy table
Executive Director remuneration

Bonus deferral

Purpose and link to strategy	To align with sound risk management, encourage retention of employees, share ownership and alignment with shareholder interests.
Operation	Executive Directors are required to defer a percentage (currently 40%) of their total annual bonus into Hiscox shares for a period of three years. The release of these shares and the associated accrued dividend shares are generally subject to continued employment but are not subject to any further performance conditions. The remaining 60% will be paid as cash following the end of the financial year. The Remuneration Committee may exercise discretion and agree to early payment of deferred bonuses to Executive Directors on an exceptional basis. Deferred awards are subject to malus and clawback provisions as described in the notes to the policy table on page 140.
Maximum potential value	In accordance with the operation of the annual bonus plus accrued dividend shares.
Performance metrics	In accordance with the operation of the annual bonus.
Application to broader employee population	Bonus deferral is applied in line with regulatory requirements.

Future policy table
Executive Director remuneration

Long-term incentive plan – Performance Share Plan (PSP)

Purpose and link to strategy	To motivate and reward for the delivery of long-term objectives in line with Company strategy. To encourage share ownership and align interests with shareholders. To provide competitive compensation packages.
Operation	Awards are granted under, and governed by, the rules of the PSP as approved by shareholders from time to time. Share awards are made at the discretion of the Remuneration Committee. Awards normally vest after a three-year period subject to the achievement of performance conditions. Dividend equivalents may accrue prior to the vesting date. An additional holding period, which is currently two years, applies. Awards are generally subject to continued employment, however, awards may vest to leavers in certain scenarios. 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 140.
Maximum potential value	PSP awards are subject to a maximum annual grant of up to 250% of salary in respect of any one financial year plus accrued dividends (or equivalents).
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. The policy provides for a minimum aggregate weighting of 70% for financial metrics and for up to 30% to be based on strategic non-financial performance metrics. For the weightings used in a particular year, please refer to the annual remuneration report. For delivery of threshold performance, up to 20% of the relevant portion of the award can vest. For full vesting, the stretch hurdles need to be met in full. The discretion available to the Committee in assessing the achievement of the performance targets is as set out in the notes to the policy table on page 140. 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 a major disposal).
Application to broader employee population	Participation in the PSP is normally restricted to 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 awards (net of assumed taxes). Executive Directors are also 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 (or the actual shareholding on stepping down, if lower) for two years after termination unless the Committee determines otherwise in exceptional circumstances.
Maximum potential value	N/A.
Performance metrics	N/A.
Application to broader employee population	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 or pension arrangements. 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 125.
Chairman	The Chairman receives an all-inclusive fee in respect of the role. In addition to his fee 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 Remuneration Committee.
Non Executive Directors	Non Executive Directors receive an annual fee in respect of their Board and Committee appointments together with additional compensation for further duties (for example, chairmanship, subsidiary boards, SID fee and employee liaison fee). The fees for the Non Executive Directors (excluding the Chairman) are determined by the Nominations and Governance Committee.

Notes to the policy table

Performance measures, target setting and assessment

The performance targets for the annual bonus and Performance Share Plan (PSP) awards are closely aligned with the Company's short- and long-term strategic objectives. The intention is to provide a direct link between reward levels and performance.

The Company operates a performance scorecard-based approach for the annual bonus. This ensures that both individual bonus levels and overall spend are commensurate with the performance of the Company across a number of key metrics, some financial and some non-financial. The Committee considers performance metrics and targets prior to the start of each financial year to ensure that these remain suitable and relevant. It is the intention of the Committee that the bonus payments 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.

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

Malus and clawback provisions

Bonus deferral applied from 2023 and PSP awards granted from 2023 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;
- 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;
- a failure of adequate risk management and/or controls by the participant or their team, resulting in a material impact to the Group;
- a material corporate failure in the Group;
- a regulatory or law enforcement investigation which results in significant censure.

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 payment or vesting in the above circumstances.

The malus and clawback provisions that apply to awards made prior to 2023 are as set out in the relevant remuneration policy as at the date of award.

Recruitment policy

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

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

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

On initial appointment (including interim Director appointments) the maximum level of variable remuneration (excluding any buy-outs) is capped at the maximum level set out in the policy table on pages 133 to 139. 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.

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.

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.

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

Bonuses will normally only be paid to Executive Directors who are granted 'good leaver' status in accordance with the bonus plan rules. 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 and paid in line with the normal bonus scheme timings and performance metrics.

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 targets are 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 all payments.

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

We are proud of our reward offering across the Company and apply principles consistent with how we pay our Executive Directors. We ensure employees are paid fairly in line with their responsibilities, experience and the market rate for the role. Employees participate in an annual bonus scheme and senior individuals are eligible for awards under the Performance Share Plan. We also offer a generous benefit package.

Variable remuneration for the most senior employees 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.

Hiscox encourages all employees to become shareholders through our sharesave schemes, enabling employees to share in the success of the Company.

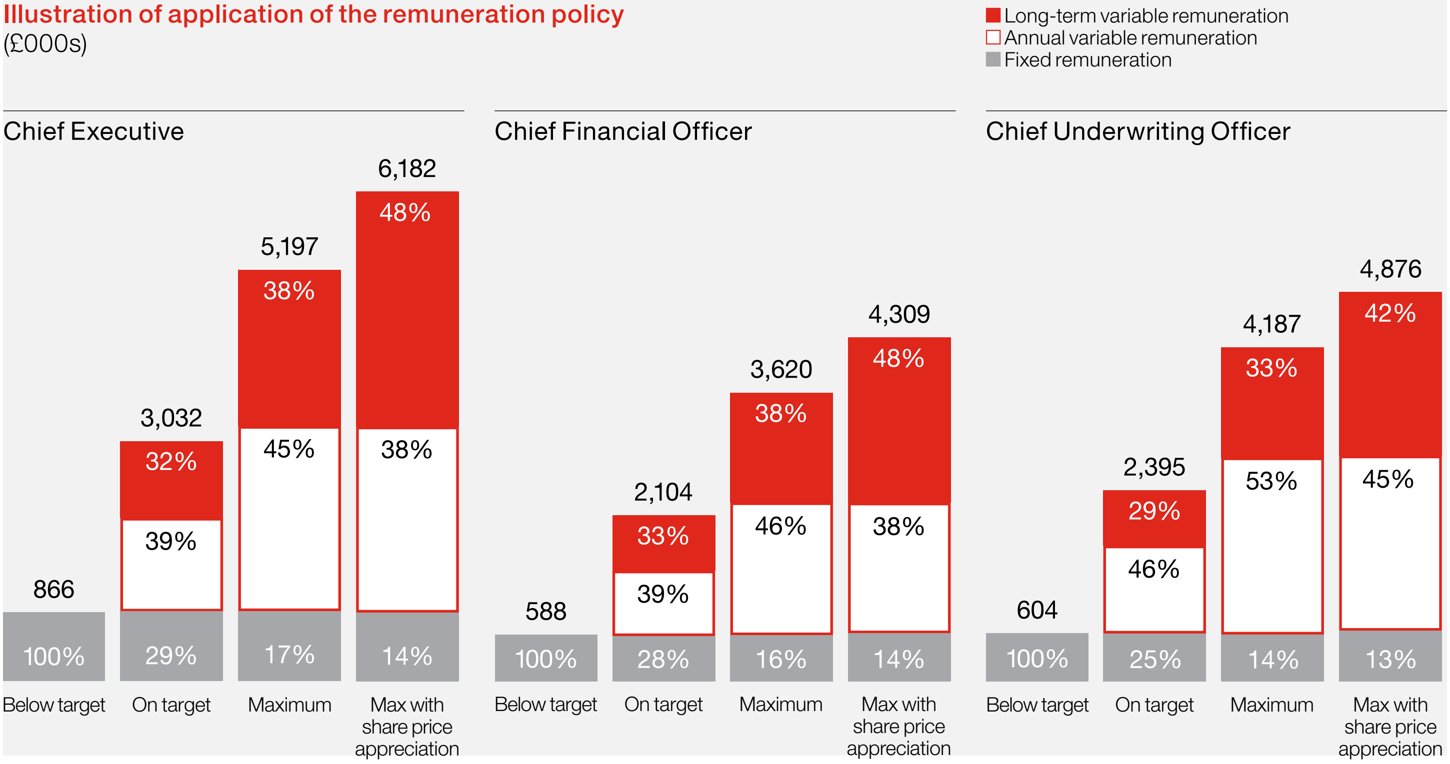
While the Committee did not consult directly with the broader workforce on the remuneration policy for Executive Directors, we have introduced a process by which employee views are gathered on a range of topics and presented to the Board. The Remuneration Committee also receives an update on the broader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

As detailed on page 132, the Committee consulted with major shareholders during 2022 and into 2023, and took shareholder feedback into account when finalising the revised policy.

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



The charts above have been compiled using the following assumptions.

Fixed remuneration	Fixed reward (base salary, benefits and retirement benefit). — Salary with effect from 1 April 2023. — Benefits as received during 2022, as disclosed in the Executive Director remuneration table on page 112. — Retirement benefit as received during 2022, as disclosed in the Executive Director remuneration table on page 112.
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 137. In practice, award levels are determined annually and are not necessarily granted at the plan maximum every year.

Performance scenarios

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

Q&A:

with Matthew Wilken
Chief Underwriting Officer, Hiscox Re & ILS

Re invention

With demand and supply out of kilter, reinsurance is undergoing a paradigm shift. But for a courageous, experienced and sophisticated operation, significant opportunities are there for the taking. >

After building his career at R.J. Kiln Syndicate, Argo Re, Ariel Re and MS Amlin, Matthew Wilken joined Hiscox Re & ILS in January 2022. He is responsible for executing the business's underwriting strategy and delivering long-term value by ensuring the needs of clients and capital partners are successfully met.

Q&A:

with Matthew Wilken
Chief Underwriting Officer,
Hiscox Re & ILS

Q: Tell us a little about your professional background.

A: I joined the industry in 1991, a year before Hurricane Andrew. The reinsurance market was going through a paradigm shift similar to the one we're experiencing now, some three decades on. I joined R.J. Kiln as a graduate trainee and at that stage had not appreciated just how instrumental the company was in creating the foundations of the catastrophe reinsurance marketplace at Lloyd's. Robert Kiln literally wrote the book on how to transact reinsurance; a book that became known in our part of the industry as 'the bible'. I suspect there are people of my generation in Hiscox who can still find a copy on their bookshelves! I've known Hiscox through that entire time, in the unique and lovely Lloyd's way – they were a competitor, but they were also a kindred spirit: supportive of the industry, innovative, creative and courageous.

Q: From the outside, what had your perception of Hiscox been?

A: From afar, I always considered it a rigorously intellectual organisation, robust and demanding. Now I'm here, I can confirm that's true! Historically, it's very heavily associated with reinsurance. There have been a lot of newcomers in our space, particularly over the past decade and a half, but there aren't many companies that are steeped in the history of reinsurance and have made it a fundamental pillar of their strategy. To have the positive re-enforcement from management that reinsurance is, and will remain, an integral part of our business is a really strong sell to the clients, to our capital, and to our teams. That's really valuable.

Q: What do you think are the key ingredients of a high-performing underwriting operation?

A: I think there are a few key ingredients actually. It's a business that has an inherent uncertainty built into it, so you need the tools to be able to deal with that, measure it and understand what it means. That rigorous analytical capability needs to be reflected in senior management, in our capital models and in the underlying models that allow us to transact our business and get the best price. I also firmly believe that reinsurance is a long game. This is about developing relationships, developing trust. It's not just about capital optimisation in the short term and swapping clients willy-nilly. We have a finite number of clients and, as a result, we build relationships that last decades. I'm still dealing with customers who I first saw when I was a junior underwriter in the nineties.

But marrying that analytical capability with a long-term relationship-building philosophy is difficult. It takes balance and experience. In reinsurance, even more so than some other parts of insurance, every single person in the team needs to have the confidence to negotiate and talk to very senior people – even at the very early stages of a career in reinsurance, you'll be dealing with senior brokers, CEOs and CFOs. So you need to understand the pressure that these people are under, how they tick, what's on their mind. It's not easy, but my gosh it means you develop your expertise quickly.

Q: As Chief Underwriting Officer, what kind of culture are you looking to foster?

A: Re & ILS has 19 underwriters and every one of them is bringing in millions of Dollars in gross written premiums, running really key accounts. I don't underestimate that kind of responsibility, so coming in here as a newbie it's important to respect the road that has led them to this point in time. As a leader, you sit, you listen, you observe, and you try to build trust. Our work demands a close structure, huge communication and inherent trust. Culturally, we need people with as little ego as possible who trust one another and work seamlessly as a team. And that's what we have. But it takes effort to do that because we're in two different locations – Bermuda and London. If we were disparate from one another and not absolutely connected it would significantly diminish the value. That's why a strong culture is key.

Q: You mentioned that the industry is undergoing a paradigm shift. How would you characterise that?

A: This is a complex but finite industry that's been heavily influenced by the use of third-party capital, particularly in the last ten years. There's now an imbalance of demand and supply. Supply has gone down, but demand is not staying flat – it's increasing. We've got an inflationary environment, the average cost of products is rising, the

> "There's now an imbalance of demand and supply. Supply has gone down, but demand is not staying flat – it's increasing. We've got an inflationary environment, the average cost of products is rising, the average cost of houses is rising, so the average losses are rising. That means insurance companies are buying more reinsurance cover to protect their rising exposures."

> "Reinsurance demands time in the industry to understand the complexities, and build the relationships, so succession planning is fundamental. Thankfully, Hiscox has got a brilliant graduate programme."

average cost of houses is rising, so the average losses are rising. That means insurance companies are buying more reinsurance cover to protect their rising exposures. But you can't just increase your line without having the capital to do it and broadly speaking the capital just isn't there. Our industry is quite systemic in its use of capital models, and every organisation has some form of tool that helps it optimise its return on capital, so there isn't a lot of spare capacity sitting on anyone's balance sheet. Exacerbating this situation is the fact that new capacity is not entering the space at the moment so market conditions are reflecting this lack of supply.

Q: What impact is that disparity having on the structure of the industry?
A: The reinsurance industry used to be there to protect the infrequent and very severe losses that would impact companies' survival, but over the years – as there's been an excess of supply, and as companies have become more confident in their ability to model price – there's been a tendency to grow into ever-more vulnerable areas and have larger amounts of smaller losses going into catastrophe reinsurance programmes. That's now disappearing, and more reinsurers are going back to the idea that the value we really create is the protection of the infrequent severe losses that threaten our client's capital. When you need us, we're there with our capital and our security and our longevity. The whole structure is changing.

In the face of that change, we need to have courage. After Hurricane Andrew in 1992, after the World Trade Centre, and after Hurricane Katrina, the companies that were successful were those that had the courage of their convictions, a sophisticated ability to measure the risk, continuity and longevity in their relationships, the experience to be able to write the contracts and the capital to support it.

Q: Where do you see the opportunities?
A: The reinsurance world is focused on property catastrophe excess of loss business (or what we call property cat) at the moment. For us it's the largest part of our overall portfolio. But reinsurance extends to a lot of other lines as well – the so-called specialty lines, such as marine and energy and cyber. We want to grow those lines and we've got the ability to do so, so we'll continue to build out those areas as we go forward.

On the property cat side, it's about getting the right prices at the right attachment levels and most importantly the correct line-size committed on each deal. The industry has, I think, lagged behind the attachment level of the cat product. The vulnerability of cedants' portfolios have increased massively – the number of houses that exist, what their value is and where people are buying them. For example, more people than ever want to live by the coast. Florida is a prime example of this and represents one of the most vulnerable places to hurricanes on Planet Earth. The impact is that if you have a cat loss now, it'll cost way more than it used to and that needs to be considered and priced for.

Q: What do you need to do to prepare your team for the future?
A: Reinsurance demands time in the industry to understand the complexities, and build the relationships, so succession planning is fundamental. Thankfully, Hiscox has got a brilliant graduate programme. The idea that we're bringing in the young, bright, aspirational leaders of tomorrow, training them on the job and giving them a pathway to develop is really strong. So that's key to me. The other thing that's important is the diversity and inclusion policy. If you sit in the average room of reinsurers, 80% of them are going to be white males. We've made a conscious effort to make sure we address those issues, and we need to keep doing more.

Q: Outside of work, what gives you energy?
A: I've got family, I've got two sons and our life revolves around them. Aside from that, it's sport. I'm a passionate snowboarder, play golf (badly!) and still rock climb occasionally if the opportunity arises. I'm still a bit of an adrenaline junkie. I'm a very keen kite-surfer, surfer, wind surfer – anything on water I'll give it a go! But kite surfing's my thing over here in Bermuda. That's my get-out-of jail-free card to release the stress. ■

Directors' report

The Directors have pleasure in submitting their Annual Report and consolidated financial statements for the year ended 31 December 2022.

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 24 to 37, 44 to 47, 166 to 230 and 232 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 notes 3.3 and 17 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 24 to 37. The Chief Executive's report also describes the main trends and factors likely to affect the future development, performance and position of the Company's business. A description of the Company's strategy and business model is set out on pages 6 to 7. The Company is not involved in any research and development activities. A description of the key risks and uncertainties and how they are managed or mitigated can be found in the key risks section on pages 8 to 11 and the risk management section on pages 44 to 47. In addition, note 3 to the consolidated financial statements provides a detailed explanation of the key 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 88 to 93.

Emerging and principal risks

The confirmation required by Provision 28 of the Code in relation to the Board's robust assessment of the Company's emerging and principal risks (referred to in this document as key risks) can be found on page 46.

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 83 to 87 in this report.

Diversity

The diversity of the business is outlined in the Nominations and Governance Committee report on pages 94 to 98 and on page 59.

Financial results

The Group delivered a pre-tax profit for the year of $44.7 million (2021: $190.8 million). Detailed results for the year are shown in the consolidated income statement on page 166.

Going concern

A review of the financial performance of the Group is set out in the Chief Executive's report on pages 24 to 37. The financial position of the Group, its cash flows and borrowing facilities are included in the capital section on pages 42 to 43. 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. Scenarios and stresses assessed include economic downturns/shocks, higher inflation, cyber attacks, reinsurance default and natural catastrophe events. A number of potential mitigating factors and management actions have been identified to address the potential adverse effects on the Group's solvency and liquidity. Stress and scenario testing is based on expert opinion and as such is highly subjective. Multiple experts within the business review the provisional results in order to reduce individual biases and to try and ensure all possibilities are considered and captured.

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 resilience to shocks, underpinned by the Group's approach to risk management which is described in note 3 on pages 182 to 192.

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 pages 8 to 11 and the risk management section on pages 44 to 47, 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 2025 and is underpinned by management's 2023-2025 business plan. It 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. In making the viability statement, the Board carried out, as part of the Group's solvency self-assessment 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. The adequacy of the liquid resources of the Group's parent company has been assessed by considering stress scenarios that would result in additional calls on central liquidity by the Group's business units. A 1-in-200 US and Caribbean hurricane was assessed to be the most severe liquidity stress. Under this scenario the Group was shown to have access to sufficient liquidity sources to remain above risk appetite, after taking into account the Group's $600.0 million undrawn revolving credit facility. This analysis allows 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 a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three-year assessment period. Longer term, the Group's viability is underpinned by the Group's strategy of balancing big-ticket with retail business, market growth opportunities and underwriting expertise. See pages 6 to 7 for further details of the business model and longer-term prospects.

Dividends

An interim dividend of 12.0 cents per share was paid on 20 September 2022 and, as in previous years, a Scrip Dividend alternative was offered. The Board is also proposing payment of a final dividend in respect of the year ended 31 December 2022 (subject to shareholder approval) of 24.0 cents per share, to be paid on 13 June 2023 to shareholders on the register at 5 May 2023.

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.

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 2022 Annual General Meeting (AGM) to purchase in the market up to 10% of the Company's issued ordinary shares. No shares have been bought back under this authority as at the date of this report.

Directors

The names and details of all Directors of the Company who served during the year and up to the date of this report are set out on pages 72 to 73. Details of the Chairman's professional commitments are included in his biography on page 72.

Major interests in shares

The Company has been notified of the following interests in voting rights in its ordinary shares in accordance with DTR 5:

	Number of shares	% of issued share capital as at 31 January 2023*
Fidelity Investments	33,069,818	9.54
Capital Research Global Investors	25,821,322	7.45

*There were 346,546,029 shares in issue (excluding Treasury shares) as at 31 January 2023.

As at 7 March 2023, no changes have been notified to the Company.

Disclosure under LR 9.8.4 of the Listing Rules

Details of long-term incentive schemes	Annual report on remuneration (pages 117 to 118)
Allotment of shares for cash pursuant to employee share schemes	Note 22 to the consolidated financial statements on employee share schemes (page 213)

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 AGM.

Details of the Directors' share ownership is also set out on page 120.

Biographical details of the Directors are set out on pages 72 to 73, 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 AGM.

Major interests in shares

The Company has been notified of the interests in voting rights in its ordinary shares in accordance with DTR 5, which are outlined in the table above. 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**.

Political donations and charitable contributions

The Group made no political donations during the year (2022: $nil). Information concerning the Group's charitable activities is contained in the environmental, social and governance (ESG) section on pages 54 to 59 and at **hiscoxgroup.com/responsibility**.

Climate-related matters

In preparing and authorising this report, the Board has considered the relevance of material climate-related matters. Climate-related matters are discussed at all levels of the Company, including Board level, in line with the ESG governance structure outlined on page 64.

The Company also aligns its climate-related activities to the TCFD framework, details of which can be found on pages 60 to 67.

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 AGM in 2022, 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 2023.

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 in the table above.

Annual General Meeting

The notice of the AGM, to be held on 11 May 2023, 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
8 March 2023

Directors' responsibilities statement

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

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with UK-adopted international accounting standards, give a true and fair view of 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 Group Chief Executive Officer, Aki Hussain. The statements were approved for issue on 8 March 2023.

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

Advisors

Hiscox Ltd

Secretary
Marc Wetherhill

Registered office
Chesney House
96 Pitts Bay Road
Pembroke HM 08
Bermuda

Registered number
38877

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

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

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

Q&A:

with Markus Niederreiner
Managing Director, Hiscox Germany

Network news

Through ambitious system changes and integration into its partners' digital infrastructure, Hiscox Germany is seizing opportunities for growth and efficiency. >

Markus Niederreiner joined Hiscox Germany in September 2021, bringing with him extensive experience of implementing growth strategies and overseeing the digitisation of business processes.

Q&A:

with Markus Niederreiner
Managing Director, Hiscox Germany

Q: Tell us about your professional journey. What experiences did you bring with you to Hiscox?
A: I came over to the UK to do an MBA at Leeds University before I started my professional career in the financial services industry. Then after seven years in different leadership roles for Allianz Germany, seven years in management consulting and five years as Managing Director for BNP Paribas in Germany and Austria, I joined Hiscox in 2021. I would say that in my previous roles a recurring starting point was adapting to regulatory, technological or market-related change, resulting in the pursuit of growth opportunities. That is something I've brought to my role at Hiscox – my experience of transforming and scaling financial institutions from very different perspectives.

Q: What was it that attracted you to the Company?
A: I was fully attracted to the values, to the culture, to the whole spirit of the Company. I was able to feel that in every interview I had. I was also drawn to the enormous potential and ambition the Company has. What makes Hiscox unique, I think, is the way we integrate the expertise and financial strength of a stock-listed insurance company with the entrepreneurial spirit and dynamic of a real growth company. I love the drive of getting better every day, adapting to changing conditions and building a sustainable business for the future. My role here, together with an ambitious team, is to write the next chapter of Hiscox Germany's growth story. This means preparing our internal set-up for profitable growth and building an increased footprint in Germany. That's basically the mission, and for me it's a really exciting one.

Q: How have you found it so far?
A: My predecessor, Robert Dietrich, was in this role for 15 of his 25 years at Hiscox, and he built this business in Germany up to where it is now, before moving on to his current role as Hiscox Europe Chief Executive Officer. Coming in from outside of Hiscox to take on the role was of course a challenge, but I have absolutely loved it. What has helped is that my job is not just to step into the shoes of a person who did a fantastic job before me for such a long time. My job is to create something that will prepare us for the future. We now need to take the next step in growing our business and organisation and I'm very lucky to be able to build on such solid foundations.

Q: Looking back over the past year, what are you most proud of?
A: This has been a year of intensive transformation, and we've also had to face the challenges of a demanding market environment, but we've been able to deliver important foundations for future growth without sacrificing short-term results. We've achieved double-digit growth and stable profitability while making necessary adjustments to our product line and delivering important milestones within our digital transformation projects. All these achievements were only possible with an enormous team effort where everybody really went the extra mile, and it makes me really proud to be part of such a team.

Q: With those digital transformation projects, what is it that you're seeking to achieve?
A: Our digital transformation initiatives are for sure the key enablers for our growth ambitions and efficiency targets. We decided to not only digitise on the surface but to build a new core system, which for any insurance company is one of the most demanding projects you can handle. The implementation and migration of the new core system was piloted here in Germany before being rolled out to other European countries, so that was a big challenge for us. But in combination with new front-ends and data architecture, these system changes give us enhanced connectivity, easy integrations into existing partner infrastructures and new opportunities to advance our analytics and data-driven business models. They will help us react quickly to constantly evolving customer and partner expectations and create new growth opportunities. At the same time, we will be able to break the interdependency of revenue and expense growth.

Q: Being the pilot country for the core system change must have been a significant responsibility.
A: There's a special responsibility in piloting such a project in one country. The lessons we have learnt mean that

> I was fully attracted to the values, to the culture, to the whole spirit of the Company. I was able to feel that in every interview I had. I was also drawn to the enormous potential and ambition the Company has. What makes Hiscox unique, I think, is the way we integrate the expertise and financial strength of a stock-listed insurance company with the entrepreneurial spirit and dynamic of a real growth company."

> Our new cyber product for Germany is another example of a pilot. One of the features is an innovation for business interruption that helps to accelerate claims regulation for small businesses and mitigate surge risk scenarios."

not every country following us will have to go through the same tough journey. As well as being able to share those lessons, the good thing about the pan-European set-up here is that it helps us leverage return on investment and gives us all opportunities to take on ambitious digital transformation projects like this that we would never be able to tackle alone.

Our new cyber product for Germany is another example of a pilot. One of the features is an innovation for business interruption that helps to accelerate claims regulation for small businesses and mitigate surge risk scenarios. With that, we were not only introducing a market-leading solution for Germany, we were implementing a pilot for other European countries, and that is very exciting.

Q: Where do you see the biggest opportunities for growth?

A: Beside building on our strong position within our private and commercial insurance lines, we see enormous potential in SME commercial insurance, as major parts of this segment are under-served in Germany – or even unserved. On the product side, we are looking to expand and develop our verticals for certain target groups like employee leasing or e-education businesses. This will be complemented by digitising and simplifying our quote and bind processes, integrating them into existing partner infrastructures and improving the underlying data exchange. The objective is to make it easy for our partners, and to offer also more standardised products to their smaller mass clients.

A concrete example for new business models arising in this context is our partnership with an ecosystem for the creator – by which we mean content creators, influencers – and the freelancer industry. This is an exponentially growing target group, completely within our appetite, but difficult to access and often with a low sensitivity to risk exposure. Our approach allows us to integrate insurance solutions for creators and freelancers with other products and services like factoring solutions or business loans, which is a really compelling proposition for this target group. These new sales partnerships mean we need the ability to deliver modular products and easy processes, rather than individual case-by-case underwriting. This requires a mindset shift as well as a logistical one, but it's an approach which holds a lot of promise for us.

Q: How close is your relationship with the other Hiscox Europe offices?

A: It is very close. Compared to other geographies like the UK or the USA, we have this diversification of different countries, different geographies, different cultures and different market mechanics, which can sometimes be a challenge. But this also gives us an opportunity to learn so much from each other. We all have different strengths. For example, in France and Spain, bancassurance is already much more mature than it is in Germany, so we can learn a lot from them about that segment. We have meetings on a very regular basis, across geographies and functions. This is also something that makes Hiscox unique for me – the culture and the aspiration to create something greater together.

Q: Outside of work, what gives you energy?

A: My family, for sure. I became a father for the first time last year. I have a small daughter who gives me a lot of energy, of course! And the other part is that living in Bavaria, we are quite close to the mountains. The mountains are the perfect place to recover: skiing in winter, hiking in summer. This is the privilege of living in Munich. You're in a city but you're close to the lakes and the mountains, and for me this is the perfect environment. ■

Financial summary

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

Report on the audit of the consolidated financial statements

Our opinion

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

What we have audited

The Group's consolidated financial statements comprise:

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

Basis for opinion

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

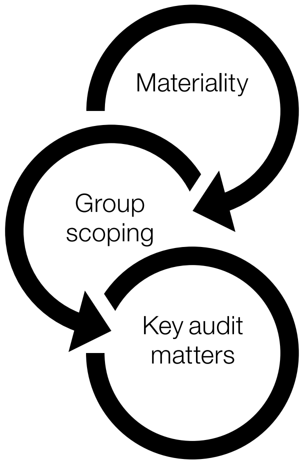
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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

Our audit approach

Overview



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

Our audit comprised:

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

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

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

Audit scope

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

Tailoring of Group audit scope

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

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

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

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

The impact of climate risk on our audit

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

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

As part of this, our audit procedures included:

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

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

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

Materiality

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

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

Materiality

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

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

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

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

Key audit matters

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

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

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

Key audit matters

Key audit matter	How our audit addressed the key audit matter
1. Valuation of gross claims liabilities Refer to notes 2.13, 2.21 and 23 to the consolidated financial statements for disclosures of related accounting policies and balances. As at 31 December 2022 gross claims liabilities comprised \$2.5 billion of claims reported and claims adjustment expenses, and \$4.5 billion of claims incurred but not reported (IBNR). Insurance claims liabilities are inherently uncertain and contain material estimates, the most subjective element being IBNR. Management bases the estimate of IBNR on the estimated ultimate cost of all unsettled claims, inclusive of the related claims handling costs. There is also uncertainty in elements of the reported but not settled claims including those related to Covid-19. For IBNR, the methodologies and assumptions used to estimate insurance liabilities involve a significant degree of judgement. As a result, this was an area of focus as the valuation can be materially impacted by numerous factors including: — the underlying volatility attached to estimates for certain classes of business, where small changes in assumptions can lead to large changes in the levels of the estimate held, including the change to reserving classes implemented this year; — the risk of inappropriate assumptions used in determining current year estimates. Given that limited data is available, especially for 'long-tailed' classes of business, there is a greater reliance on expert judgement in management's estimates; and — the risk of application of inappropriate assumptions in respect of specific claims reserves for natural catastrophes and other large claims losses, including inwards reinsurance classes of business exposed to claims and potential claims arising from Covid-19. There is significant judgement involved in these loss estimates, particularly as they are often based on limited data.	Procedures were performed to obtain an understanding of, evaluate and test the design and operational effectiveness of, key controls in place in respect of the valuation of insurance claims liabilities In addition, the following procedures were performed: — tested the completeness and accuracy of premiums data used in the actuarial projections for IBNR; — tested the completeness and accuracy of claims data used in the actuarial projections for IBNR, the establishment of large loss reserves, and the determination of reported but not settled claims; — tested the completeness and accuracy of policy data, where applicable, used to establish large loss reserves; and — reconciled the gross claims liabilities from the underlying financial records to the consolidated financial statements. In performing our work over the valuation of IBNR PwC actuarial specialists were used, where appropriate. Procedures included the following: — development of independent point estimates for classes of business considered to be higher risk, particularly focusing on the largest and most uncertain classes, as well as for certain other classes to introduce unpredictability, as at 31 August 2022 and performed a roll-forward test to 31 December 2022; — tested specific claims reserves including those impacted by Covid-19, natural catastrophes and other large claims by understanding and challenging the methodology and assumptions used by management and where available comparing to data reported by counterparties, industry benchmarks and other publicly available information; — performed key-indicator testing procedures over the remaining classes of business to evaluate gross IBNR reserves; — evaluated the appropriateness of the booked gross loss reserve margin, taking into account estimation uncertainty inherent in the underlying insurance business; and — inspected the supporting evidence produced by management on changes made to reserving classes. For those classes subject to independent re-projection, assessed the appropriateness of the loss reserving classes. The results of our procedures indicated that the valuation of gross claims liabilities was supported by the evidence obtained.

Key audit matters

Key audit matter	How our audit addressed the key audit matter
2. Valuation of reinsurance claims recoverable Refer to notes 2.13, 2.21 and 23 to the consolidated financial statements for disclosures of related accounting policies and balances. The valuation of the reinsurance claims recoverable is uncertain due to the significant degree of judgement applied in valuing the associated gross claims liabilities that have been reinsured, the complexity of the application and coverage of the reinsurance programme, and the willingness and ability of the reinsurers to pay. As at 31 December 2022 claims recoverable are $3.4 billion in the consolidated financial statements. For the year ended 31 December 2022, there are additional circumstances contributing to the degree of uncertainty for elements of reinsurance claims recoverable as follows: — reinsurance recoverables associated with policies affected by Covid-19, as cedants and reinsurers continue to evaluate how losses will be applied to (re)insurance contracts; and — the execution of legacy portfolio transaction (LPT) contracts with external counterparties during the year. Such transactions require judgement on the accounting for the contracts, in particular the degree of risk transfer present in the reinsurance contracts.	Procedures were performed to obtain an understanding of, evaluate and test the design and operational effectiveness of key controls in place in respect of the valuation of reinsurance claims recoverable. In addition, the following procedures were performed: — tested the accuracy of application of reinsurance contract terms; — tested the netting down of reinsurance on gross paid, outstanding, and specific claims reserves; — for those classes of business selected for independent projections on a gross basis, PwC actuarial specialists were used to develop independent point estimates for the associated reinsurer's share of IBNR loss reserves; — for the remaining classes of business where PwC actuarial specialists performed key-indicator testing on a gross basis, they performed testing on the associated reinsurer's share of IBNR loss reserves; and — evaluated management's assessment of risk transfer for each of the LPT contracts executed in the year using our actuarial specialists. The results of our procedures indicated that the valuation of reinsurance claims recoverable was supported by the evidence obtained.

Key audit matters

Key audit matter	How our audit addressed the key audit matter
3. Disclosure of the expected impact of IFRS 17 Refer to note 2.1 to the consolidated financial statements. On 1 January 2023, the Group transitioned to International Financial Reporting Standard (IFRS) 17 *Insurance Contracts* which replaced IFRS 4. The expected transition impact, including the impact on opening equity as at 1 January 2022, is disclosed in note 2.1 to the consolidated financial statements in accordance with International Accounting Standard (IAS) 8. Disclosures in these 2022 consolidated financial statements are intended to provide users with an understanding of the expected impact of the new standard ahead of implementation, and as a result are more limited than the disclosures to be included in the annual and interim 2023 consolidated financial statements. Due to the significance of the changes introduced by the standard on opening equity (1 January 2022) upon transition, the disclosure of the expected impact of IFRS 17 in the 31 December 2022 consolidated financial statements was determined to be an area of focus. The Group has evaluated the requirements of IFRS 17 and exercised judgement to develop accounting policies, and select assumptions. In particular, the determination of the measurement model to apply under the standard, the determination of the risk adjustment assumption, and the determination of the discount rate methodology, were deemed to be significant to the overall impact of transition. The expected impact on opening equity as at 1 January 2022 has been calculated by management by adjusting the reported position on an IFRS 4 basis, using a combination of models developed for transition.	Procedures were performed to obtain an understanding of and evaluate the design of controls in place over the disclosed expected transition impact of IFRS 17, including the calculation of the impact on opening equity as at 1 January 2022. In addition, the following procedures were performed: — assessed the significant judgements used by management to determine the accounting policies along with the compliance of those policies with IFRS 17. This included judgements used to determine use of the Premium Allocation Approach (PAA) measurement model, and the policy applied for the risk adjustment assumption; — evaluated the appropriateness of management's PAA eligibility analysis, including testing the completeness and accuracy of supporting data, evaluating the assumptions used and scenarios applied, and testing the accuracy of models used; — evaluated the appropriateness of the methodology used to determine discount rates and independently recalculated the impact of discounting on opening equity at 1 January 2022; — tested the mathematical accuracy and completeness of the supporting calculations and adjustments used to determine the impact on opening equity at 1 January 2022; and — assessed the appropriateness of the quantitative and qualitative disclosures required by IAS 8. The results of our procedures indicated that the disclosed expected impact of IFRS 17 and the disclosures made are supported by the evidence obtained.

Other information

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Report on other legal and regulatory requirements

Directors' remuneration

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

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

Corporate governance statement

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

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

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

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

In addition, based on the work undertaken as part of our audit, it was concluded that each of the following elements of the corporate governance statement is materially consistent with the consolidated financial statements and our knowledge obtained during the audit:

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

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

Other matter

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

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

PricewaterhouseCoopers Ltd.
Chartered Professional Accountants
Bermuda
8 March 2023

Consolidated income statement

For the year ended 31 December 2022	Note	2022 $m	2021 $m
Income			
Gross premiums written	4	4,424.9	4,269.2
Outward reinsurance premiums	4, 23.2	(1,444.9)	(1,314.2)
Net premiums written	4	2,980.0	2,955.0
Gross premiums earned		4,313.8	4,246.9
Premiums ceded to reinsurers		(1,385.6)	(1,327.0)
Net premiums earned	4, 23.2	2,928.2	2,919.9
Investment result	4, 7	(187.3)	51.2
Other income	4, 9	46.5	56.8
Total income		2,787.4	3,027.9
Expenses			
Claims and claim adjustment expenses	23.2	(2,110.1)	(2,185.5)
Reinsurance recoveries	23.2	781.8	755.1
Claims and claim adjustment expenses, net of reinsurance	4, 23.2	(1,328.3)	(1,430.4)
Expenses for the acquisition of insurance contracts	15	(1,015.8)	(1,017.9)
Reinsurance commission income	15	260.3	283.2
Operational expenses	4, 9	(642.3)	(622.7)
Net foreign exchange gains		30.6	0.7
Total expenses		(2,695.5)	(2,787.1)
Total income less expenses		91.9	240.8
Finance costs	4, 10	(48.1)	(50.8)
Share of profit of associates after tax	4, 14	0.9	0.8
Profit before tax		44.7	190.8
Tax expense	25	(3.0)	(1.3)
Profit for the year (all attributable to owners of the Company)		41.7	189.5
Earnings per share on profit attributable to owners of the Company			
Basic	28	12.1¢	55.3¢
Diluted	28	12.0¢	54.7¢

Consolidated statement of comprehensive income

For the year ended 31 December 2022	Note	2022 $m	2021 $m
Profit for the year		41.7	189.5
Other comprehensive income			
Items that will not be reclassified to the income statement:			
Remeasurements of the net defined benefit pension scheme	27	34.9	31.6
Income tax effect		(7.7)	(3.4)
		27.2	28.2
Items that may be reclassified subsequently to the income statement:			
Exchange losses on translating foreign operations		(100.2)	(18.5)
		(100.2)	(18.5)
Other comprehensive income net of tax		(73.0)	9.7
Total comprehensive income for the year (all attributable to owners of the Company)		(31.3)	199.2

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

Consolidated balance sheet

At 31 December 2022	Note	2022 $m	2021 $m
Assets			
Employee retirement benefit asset	27	20.9	–
Goodwill and intangible assets	12	320.4	313.1
Property, plant and equipment	13	133.1	90.4
Investments in associates	14	5.6	5.7
Deferred tax assets	26	53.7	67.3
Deferred acquisition costs	15	450.1	436.9
Financial assets carried at fair value	17	5,812.1	6,041.3
Reinsurance assets	16, 23	3,899.8	3,908.0
Loans and receivables including insurance receivables	18	1,671.6	1,678.2
Current tax assets		4.0	4.9
Cash and cash equivalents	21	1,350.9	1,300.7
Total assets		13,722.2	13,846.5
Equity and liabilities			
Shareholders' equity			
Share capital	22	38.7	38.7
Share premium	22	517.6	516.8
Contributed surplus	22	184.0	184.0
Currency translation reserve		(389.5)	(289.3)
Retained earnings		2,064.8	2,088.0
Equity attributable to owners of the Company		2,415.6	2,538.2
Non-controlling interest		1.1	1.1
Total equity		2,416.7	2,539.3
Employee retirement benefit obligations	27	–	35.1
Deferred tax liabilities	26	0.2	0.1
Insurance liabilities	23	8,836.6	8,868.4
Financial liabilities	17	636.2	746.7
Current tax liabilities		14.1	21.3
Trade and other payables	24	1,818.4	1,635.6
Total liabilities		11,305.5	11,307.2
Total equity and liabilities		13,722.2	13,846.5

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

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

Aki Hussain
Group Chief Executive Officer

Paul Cooper
Group Chief Financial Officer

Consolidated statement of changes in equity

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

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

Consolidated statement of cash flows

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

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

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

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

Notes to the consolidated financial statements

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

  Under the current requirements (IAS 39), a majority of the Group's investments were designated as at fair value through profit or loss on initial recognition and subsequently remeasured to fair value at each reporting date, reflecting the Group's business model for managing and evaluating the investment portfolio. The adoption of IFRS 9 is not expected to result in any material changes to the measurement of the Group's investments, which continues to be at fair value through profit or loss. Loans, receivables and debtors in scope of IFRS 9 will continue to be recognised at amortised cost less impairment, with the measurement of impairment reflecting expected credit losses. The Group expects a recognition of an earlier and higher loss allowance under this approach compared to the current incurred loss approach, but the impact on equity on adoption is not expected to be material. IFRS 9 has been endorsed by the UK Endorsement Board.
- IFRS 17 *Insurance Contracts*
  The Group will restate comparative information for 2022 applying the full retrospective transitional provisions of IFRS 17.

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

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

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

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

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

2 Basis of preparation
2.1 Significant accounting policies
(b) Future accounting developments continued

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

Changes to presentation and disclosure

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

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

Transition

On transition date, 1 January 2022, the Group:

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

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

2.2 Basis of consolidation
(a) Subsidiaries

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

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

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

2 Basis of preparation

2.2 Basis of consolidation continued

(b) Associates

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

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

(c) Transactions eliminated on consolidation

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

2.3 Foreign currency translation

(a) Functional currency

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

(b) Transactions and balances

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

(c) Group companies

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

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

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

2.4 Property, plant and equipment

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

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

The rates applied are as follows:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2 Basis of preparation
2.7 Financial assets and liabilities including loans and receivables continued

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

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

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

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

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

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

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

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

- negative rating agency announcements in respect of investment issuers, reinsurers and debtors;
- significant reported financial difficulties of investment issuers, reinsurers and debtors;
- actual breaches of credit terms such as persistent late payments or actual default;
- adverse economic or regulatory conditions that may restrict future cash flows and asset recoverability; and
- the withdrawal of any guarantee from statutory funds or sovereign agencies implicitly supporting the asset.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2 Basis of preparation
2.13 Insurance contracts
(f) Retroactive reinsurance transactions continued
recovery method over the settlement period of the reserves and reflected through the claims and claim adjustment expenses line. In transactions where the consideration paid exceeds the estimated liabilities for claims and claim adjustment expenses, a loss is recognised immediately.

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

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

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

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

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

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

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

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

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

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

2 Basis of preparation
2.15 Employee benefits continued
(b) Other long-term employee benefits
The Group provides sabbatical leave to employees on completion of every five years' service. The present value of the expected costs of these benefits is accrued over the period of employment. In determining this liability, consideration is given to future increases in salary levels, experience with employee departures and periods of service.

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

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

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

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

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

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

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

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

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

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

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

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

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

(b) Hiscox as lessor
Rental income from operating leases is recognised on a straight-line basis over the term of the relevant contractual agreement.

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

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

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

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

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

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

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

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

Estimates of IBNR are continually evaluated, based on entity-specific historical experience and contemporaneous developments observed in the wider industry when relevant, and are also updated for expectations of prospective future developments. Between the reporting and final settlement of a claim, circumstances may change, which may result in changes to the established liability. The overall reserving risk is discussed in more detail in note 3.2 and the procedures used in estimating the cost of settling insured losses at the balance sheet date including losses incurred but not reported are detailed in note 23.

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

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

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

2 Basis of preparation
2.21 Use of significant judgements, estimates and assumptions
Significant accounting estimates continued

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

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

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

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

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

2.22 Reporting of additional performance measures
The Directors consider that the combined, claims and expense ratio measures reported in respect of operating segments and the Group overall in note 4 and net asset value per share and return on equity measures disclosed in notes 5 and 6, provide useful information regarding the underlying performance of the Group's businesses. These measures are widely recognised by the insurance industry and are consistent with the internal performance measures reviewed by senior management including the chief operating decision-maker. However, these measures are not defined within the accounting standards and interpretations, and therefore may not be directly comparable with similarly titled additional performance measures reported by other companies.

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

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

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

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

3 Management of risk
3.1 Operational risk continued

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

3.2 Insurance risk

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

i) Underwriting risk

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

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

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

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

- regularly updating the Group's risk models;
- documenting, monitoring and reporting on the Group's strategy to manage risk;
- developing systems that facilitate the identification of emerging issues promptly;
- utilising sophisticated computer modelling tools to simulate catastrophes and measure the resultant potential losses before and after reinsurance;
- monitoring legal developments and amending the wording of policies when necessary;
- regularly aggregating risk exposures across individual underwriting portfolios and known accumulations of risk;
- examining the aggregated exposures in advance of underwriting further large risks; and
- developing processes that continually factor market intelligence into the pricing process.

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

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

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

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

3 Management of risk
3.2 Insurance risk
i) Underwriting risk continued

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

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

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

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

Reinsurance inwards

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

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

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

Property risks – marine and major assets

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

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

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

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

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

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

3 Management of risk
3.2 Insurance risk
i) Underwriting risk continued

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

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

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

Other property risks

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

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

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

Casualty insurance risks

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

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

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

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

ii) Reserving risk

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

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

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

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

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

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

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

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

3.3 Financial risk
Overview
The Group is exposed to financial risk through its ownership of financial instruments including financial liabilities. These items collectively represent a significant element of the Group's net shareholder funds. The Group invests in financial assets in order to fund obligations arising from its insurance contracts and financial liabilities. The key financial risk for the Group is that the proceeds from its financial assets and investment result generated thereon are not sufficient to fund the Group's obligations. The most important elements and economic variables that could result in such an outcome relate to the reliability of fair value measures, equity price risk, interest rate risk, credit risk, liquidity risk and currency risk. The Group's policies and procedures for managing exposure to these specific categories of risk are detailed below.

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

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

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

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

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

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

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

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

3 Management of risk
3.3 Financial risk
(b) Price risk continued

Nature of equity and investment fund holdings

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

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

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

Nature of debt and fixed income holdings

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

One method of assessing interest rate sensitivity is through the examination of duration-convexity factors in the underlying portfolio. Using a duration-convexity-based sensitivity analysis, if market interest rates had increased or decreased by 200 basis points at the balance sheet date, the Group equity and profit after tax for the year might have been expected to decrease or increase by approximately $170 million respectively (2021: $189 million) assuming that the balance sheet area impacted was debt and fixed income financial assets, excluding interest rate futures. Duration is the weighted average length of time required for an instrument's cash flow stream to be recovered, where the weightings involved are based on the discounted present values of each cash flow. A closely related concept, modified duration, measures the sensitivity of the instrument's price to a change in its yield to maturity. Convexity measures the sensitivity of modified duration to changes in the yield to maturity. Using these three concepts, scenario modelling derives the above estimated impact on instruments' fair values for a 200 basis point change in the term structure of market interest rates.

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

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

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

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

3 Management of risk
3.3 Financial risk
(d) Credit risk continued

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

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

The Group Reinsurance Credit Committee (RCC) assesses the creditworthiness of all reinsurers by reviewing credit grades provided by rating agencies and other publicly available financial information detailing their financial strength and performance, as well as detailed analysis from the Group's analysis team. The financial analysis of reinsurers produces an assessment categorised by factors including their S&P rating (or equivalent when not available from S&P).

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

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

This information is used to update the reinsurance purchasing strategy.

Individual operating units maintain records of the payment history for significant brokers and contract holders with whom they conduct regular business. The exposure to individual counterparties is also managed by other mechanisms, such as the right of offset, where counterparties are both debtors and creditors of the Group, and obtaining collateral from unrated counterparties. Management information reports detail provisions for impairment on loans and receivables and subsequent write-off. Exposures to individual intermediaries and groups of intermediaries are collected within the ongoing monitoring of the controls associated with regulatory solvency.

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

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

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

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

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

3 Management of risk
3.3 Financial risk
(d) Credit risk continued

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

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

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

(e) Liquidity risk

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

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

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

Fair values analysed by contractual maturity as at 31 December 2022

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

Fair values analysed by contractual maturity as at 31 December 2021

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

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

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

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

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

3 Management of risk
3.3 Financial risk
(e) Liquidity risk continued

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

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

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

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

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

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

(f) Currency risk

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

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

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

Operational currency risk

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

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

3 Management of risk
3.3 Financial risk
(f) Currency risk continued
Structural currency risk

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

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

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

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

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

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

3 Management of risk
3.3 Financial risk
(f) Currency risk continued
Sensitivity analysis

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

This analysis assumes that all other variables, in particular interest rates, remain constant and that the underlying valuation of assets and liabilities in their base currency is unchanged. The estimated sensitivities below take account of the retranslation movements of foreign currency monetary assets and liabilities in Group entities, and for the effect on equity the impact on the retranslation of entities with non-US Dollar functional currencies. The methodology has been refined to include inter-company balances that are eliminated on consolidation, but still expose the Group to foreign currency risk, with comparatives re-presented accordingly.

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

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

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

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

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

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

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

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

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

3 Management of risk
3.4 Capital risk management continued

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

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

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

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

Gearing

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

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

Financial strength

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

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

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

Capital performance

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

3 Management of risk

3.4 Capital risk management continued

Capital modelling and regulation

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

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

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

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

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

3.5 Tax risk

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

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

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

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

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

4 Operating segments

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

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

- Hiscox Retail brings together the results of the Group's retail business divisions in the UK, Europe, USA and Asia. Hiscox UK and Hiscox Europe underwrite personal and commercial lines of business through Hiscox Insurance Company Limited and Hiscox Société Anonyme (Hiscox SA), together with the fine art and non-US household insurance business written through Syndicate 33. Hiscox USA comprises commercial, property and specialty business written by Hiscox Insurance Company Inc. and Syndicate 3624.
- Hiscox London Market comprises the internationally traded insurance business written by the Group's London-based underwriters via Syndicate 33, including lines in property, marine and energy, casualty and other specialty insurance lines.
- Hiscox Re & ILS is the reinsurance division of the Hiscox Group, combining the underwriting platforms in Bermuda and London. The segment comprises the performance of Hiscox Insurance Company (Bermuda) Limited, excluding the internal quota share arrangements, with the reinsurance contracts written by Syndicate 33. In addition, the healthcare and casualty reinsurance contracts previously written in Bermuda on Syndicate capacity are also included. The segment also includes the performance and fee income from the ILS funds, along with the gains and losses made as a result of the Group's investment in the funds.
- Corporate Centre comprises finance costs and administrative costs associated with Group management activities and intragroup borrowings, as well as all foreign exchange gains and losses.

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

4 Operating segments continued
(a) Profit before tax by segment

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

4 Operating segments

(a) Profit before tax by segment continued

The following charges are included within the consolidated income statement:

	Year to 31 December 2022					Year to 31 December 2021				
	Hiscox Retail $m	Hiscox London Market $m	Hiscox Re & ILS $m	Corporate Centre $m	Total $m	Hiscox Retail $m	Hiscox London Market $m	Hiscox Re & ILS $m	Corporate Centre $m	Total $m
Depreciation	15.4	4.1	2.6	0.6	22.7	16.1	2.2	2.0	0.5	20.8
Amortisation of intangible assets	33.2	3.2	0.9	–	37.3	32.5	3.7	1.0	–	37.2
Impairment of intangible assets	–	–	–	–	–	0.3	–	–	–	0.3
Total	48.6	7.3	3.5	0.6	60.0	48.9	5.9	3.0	0.5	58.3

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

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

4 Operating segments

(a) Profit before tax by segment continued

The claims ratio is calculated as claims and claim adjustment expenses, net of reinsurance, as a proportion of net premiums earned. The expense ratio is calculated as the total of expenses for the acquisition of insurance contracts and operational expenses, including profit-related pay, as a proportion of net premiums earned. The combined ratio is the total of the claims and expenses ratios. All ratios are calculated using the 100% results.

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

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

(b) 100% operating result by segment

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

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

4 Operating segments continued

(c) Geographical information

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

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

Gross premium revenues earned from external parties

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

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

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

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

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

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

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

6 Return on equity

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

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

7 Investment result

The total investment result for the Group comprises:

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

8 Analysis of return on financial investments

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

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

(b) Investment return

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

9 Other income and operational expenses

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

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

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

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

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

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

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

10 Finance costs

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

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

11 Auditor's remuneration

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

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

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

12 Goodwill and intangible assets

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

12 Goodwill and intangible assets continued

Goodwill

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

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

Impairment assessments

To test the sensitivity of the assessment, management flexed the key assumptions within a reasonably expected range. Within this range, goodwill and other intangible assets recoveries were stress tested and remain supportable across all cash-generating units or assets.

Intangible assets

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

(a) Syndicate capacity

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

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

(b) US state authorisation licences

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

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

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

12 Goodwill and intangible assets
Intangible assets continued
(c) Software and development costs
Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring into use the specific software. These costs are amortised over the expected useful life of the software of between three and ten years on a straight-line basis.

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

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

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

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

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

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

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

13 Property, plant and equipment

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

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

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

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

14 Subsidiaries, associates and interests in other entities

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

(a) Subsidiaries

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

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

(b) SPIs

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

14 Subsidiaries, associates and interests in other entities

(b) SPIs continued

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

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

The Kiskadee Cadence Fund was launched in December 2019 to achieve attractive risk-adjusted returns by investing primarily in a worldwide reinsurance and retrocession portfolio and the Kiskadee Select Plus Fund was launched in January 2021 to achieve attractive risk-adjusted returns that have low correlation to broader financial markets by investing primarily in a diversified, worldwide property catastrophe reinsurance and retrocession portfolio, including a portion of non-catastrophe reinsurance. These funds are segregated accounts of Kiskadee ILS Fund SAC Ltd, which is managed by Hiscox Re Insurance Linked Strategies Limited, a wholly owned subsidiary of the Group. The Group determined that it does control these funds and hence they are consolidated.

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

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

(c) Investments in associates

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

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

		100% results			
	% interest held at 31 December	Assets $m	Liabilities $m	Revenues $m	Profit after tax $m
2022					
Associates incorporated in the UK	**from 32% to 35%**	**10.3**	**6.7**	**10.9**	**0.9**
Associates incorporated in Europe	**from 26% to 35%**	**8.6**	**5.4**	**4.1**	**2.0**
Total at the end of 2022		**18.9**	**12.1**	**15.0**	**2.9**
2021					
Associates incorporated in the UK and USA	from 29% to 35%	20.3	17.0	13.6	0.2
Associates incorporated in Europe	26%	5.6	3.5	2.4	1.1
Total at the end of 2021		25.9	20.5	16.0	1.3

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

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

15 Deferred acquisition costs

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

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

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

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

16 Reinsurance assets

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

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

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

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

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

17 Financial assets and liabilities

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

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

17 Financial assets and liabilities continued

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

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

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

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

Financial liabilities of the Group are:

	Note	2022 $m	2021 $m
Derivative financial instruments	19	0.3	0.2
Financial liabilities carried at fair value		0.3	0.2

	2022 $m	2021 $m
Borrowings	628.8	743.7
Accrued interest on borrowings	7.1	2.8
Financial liabilities carried at amortised cost	635.9	746.5
Total financial liabilities	636.2	746.7

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

On 24 November 2015, the Group issued £275.0 million 6.125% fixed-to-floating rate callable subordinated notes due 2045, with a first call date of 2025.

The notes bear interest from, and including, 24 November 2015 at a fixed rate of 6.125% per annum annually in arrears starting 24 November 2016 up until the first call date in November 2025 and thereafter at a floating rate of interest equal to the sum of compounded daily Sterling Overnight Index Average (SONIA), the reference rate adjustment of 0.1193% and a margin of 5.076% payable quarterly in arrears on each floating interest payment date.

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

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

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

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

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

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

17 Financial assets and liabilities continued

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

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

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

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

18 Loans and receivables including insurance receivables

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

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

Within one year	1,548.4	1,500.4
After one year	123.2	177.8
	1,671.6	1,678.2

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

19 Derivative financial instruments

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

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

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

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

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

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

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

Foreign exchange forward contracts

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

Interest rate futures contracts

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

Equity index options

During the year, no equity index futures were purchased.

20 Fair value measurements

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

As at 31 December 2022	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial assets				
Debt and fixed income holdings	1,122.4	4,237.1	67.1	5,426.6
Equities and investment funds	–	311.8	27.3	339.1
Insurance-linked funds	–	–	45.3	45.3
Derivative financial instruments	–	1.1	–	1.1
Total	1,122.4	4,550.0	139.7	5,812.1
Financial liabilities				
Derivative financial instruments	–	0.3	–	0.3
Total	–	0.3	–	0.3

As at 31 December 2021	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial assets				
Debt and fixed income holdings	858.5	4,639.5	30.1	5,528.1
Equities and investment funds	–	416.5	44.7	461.2
Insurance-linked funds	–	–	50.9	50.9
Derivative financial instruments	–	1.1	–	1.1
Total	858.5	5,057.1	125.7	6,041.3
Financial liabilities				
Derivative financial instruments	–	0.2	–	0.2
Total	–	0.2	–	0.2

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

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

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

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

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

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

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

20 Fair value measurements continued

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

The fair value of the Kiskadee funds is estimated to be the net asset value as at the balance sheet date. The net asset value is based on the fair value of the assets and liabilities in the fund. The majority of the assets of the funds are cash and cash equivalents. Significant inputs and assumptions in calculating the fair value of the assets and liabilities associated with reinsurance contracts written by the Kiskadee funds include the amount and timing of claims payable in respect of claims incurred and periods of unexpired risk. The Group has considered changes in the net asset valuation of the Kiskadee funds if reasonably different inputs and assumptions were used and has found that a 12% change to the fair value of the liabilities would increase or decrease the fair value of funds by $4.1 million.

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

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

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

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

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

21 Cash and cash equivalents

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

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

22 Share capital

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

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

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

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

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

Share repurchase

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

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

All issued shares are fully paid.

22 Share capital continued

Performance Share Plan awards

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

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

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

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

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

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

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

23 Insurance liabilities and reinsurance assets

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

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

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

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

23 Insurance liabilities and reinsurance assets continued
23.1 Insurance contracts assumptions
(a) Process used to decide on assumptions
There are many risks associated with insurance contracts, and this means that there is a considerable amount of uncertainty in estimating the future settlement cost of claims. There is uncertainty in both the amounts and the timing of future claim payment cash flows.

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

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

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

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

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

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

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

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

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

23 Insurance liabilities and reinsurance assets
23.1 Insurance contracts assumptions
(b) Claims development tables continued
Insurance claims and claim adjustment expenses reserves – gross at 100%

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

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

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

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

23 Insurance liabilities and reinsurance assets
23.1 Insurance contracts assumptions
(b) Claims development tables continued
Insurance claims and claim adjustment expenses reserves – net of reinsurance at 100%

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

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

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

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

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

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

23 Insurance liabilities and reinsurance assets continued

23.2 Movements in insurance claims liabilities and reinsurance claims assets

A reconciliation of the insurance claims liabilities is as follows:

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

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

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

A reconciliation of the unearned premium reserves is as follows:

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

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

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

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

23 Insurance liabilities and reinsurance assets

23.2 Movements in insurance claims liabilities and reinsurance claims assets continued

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

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

24 Trade and other payables

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

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

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

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

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

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

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

Maturity analysis – contractual undiscounted cash flows:

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

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

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

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

25 Tax expense

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

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

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

A reconciliation of the difference is provided below:

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

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

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

26 Deferred tax

Net deferred tax assets	2022 $m	2021 $m
Trading losses in overseas entities	28.4	29.1
Deferred tax assets	69.1	97.9
Deferred tax liabilities	(43.8)	(59.7)
Total deferred tax asset	53.7	67.3

Net deferred tax liabilities		
Deferred tax assets	–	(0.1)
Deferred tax liabilities	0.2	0.2
Total net deferred tax liability	0.2	0.1

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

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

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

26 Deferred tax

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

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

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

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

Factors affecting tax charges in future years

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

27 Employee retirement benefit obligations

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

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

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

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

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

27 Employee retirement benefit obligations continued

The scheme assets are invested as follows:

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

The amounts recognised in total comprehensive income are as follows:

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

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

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

27 Employee retirement benefit obligations continued

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

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

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

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

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

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

	2022	2021
Male	28.9	28.9
Female	30.8	30.7

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

	2022	2021
Male	29.3	29.3
Female	30.9	30.8

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

27 Employee retirement benefit obligations continued

Other principal actuarial assumptions are as follows:

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

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

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

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

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

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

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

28 Earnings per share

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

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

Diluted

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

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

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

29 Dividends paid to owners of the Company

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

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

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

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

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

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

30 Contingencies and guarantees

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

The following guarantees have also been issued:

(a) Hiscox Dedicated Corporate Member Limited (HDCM) and Hiscox Insurance Company (Bermuda) Limited (Hiscox Bermuda) provide assets under a Security and Trust Deed charged to Lloyd's of London, to meet any liabilities that occur from their interest in Syndicates 33 and 3624. At 31 December 2022, HDCM held $170.8 million of investments (2021: $245.3 million), $17.1 million of cash (2021: $1.8 million) and a $241.0 million LOC (2021: $241.0 million) in favour of Lloyd's of London under this arrangement. At 31 December 2022, Hiscox Bermuda held $528.1 million of investments (2021: $695.5 million), $72.2 million of cash (2021: $26.4 million) and a $25.0 million LOC (2021: $25.0 million) in favour of Lloyd's of London under this arrangement.

(b) In 2020, HDCM entered into a $65.0 million Funds at Lloyd's agreement under which the lending bank provides assets on HDCM's behalf under a security and trust deed charged to Lloyd's of London as part of the Company's Fund's at Lloyd's provision. At 31 December 2021 and 2022 the full $65.0 million was utilised.

(c) Hiscox plc renewed during 2022 its LOC and revolving credit facility with Lloyds Banking Group, as agent for a syndicate of banks. The facility may be drawn in cash up to $600.0 million (2021: £450.0 million) under a revolving credit facility or LOC up to $266.0 million (2021: $266.0 million). The terms also provide that the facility may be drawn in USD, GBP or EUR, or another currency with the agreement of the banks. At 31 December 2022, $266.0 million (2021: $266.0 million) was utilised by way of LOC to support the Funds at Lloyd's requirement and $nil cash drawings were outstanding (2021: $nil).

(d) Hiscox Insurance Company Limited has arranged a LOC of £nil (2021: £50,000) with NatWest Bank plc to support its consortium activities with Lloyd's; the arrangement is collateralised with cash of £nil (2021: £50,000).

(e) The Council of Lloyd's has the discretion to call a contribution of up to 5% of capacity if required from the managed syndicates.

(f) As Hiscox Bermuda is not an admitted insurer or reinsurer in the USA, the terms of certain US insurance and reinsurance contracts require Hiscox Bermuda to provide LOCs or other terms of collateral to clients. Hiscox Bermuda has in place a LOC reimbursement and pledge agreement with Citibank for the provision of a committed LOC facility in favour of USA ceding companies and other jurisdictions, and also committed LOC facility agreements with National Australia Bank and Commerzbank AG. The agreements combined allow Hiscox Bermuda to request the issuance of up to $470.0 million in committed LOCs (2021: $470.0 million).

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

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

(h) See note 25 for tax-related contingent liabilities.

31 Capital commitments and income from subleasing

Capital commitments

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

Income from subleasing

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

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

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

32 Principal subsidiary companies of Hiscox Ltd at 31 December 2022

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

*Held directly by Hiscox Ltd.

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

33 Related-party transactions

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

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

(a) Syndicate 33 at Lloyd's

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

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

(b) Transactions with associates

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

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

There were no material outstanding balance sheet amounts with associates.

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

(c) Internal reinsurance arrangements

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

34 Post balance sheet event

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

Additional performance measures (APMs)

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

Combined, claims and expense ratios

The combined, claims and expense ratios are common measures enabling comparability across the insurance industry that measure the relevant underwriting profitability of the business by reference to its costs as a proportion of its net earned premium. The Group calculates the combined ratio as if the Group owned all of the business, including the proportion of Syndicate 33 that the Group does not own (Group controlled income). The Group does this to enable comparability from period to period as the business mix may change in a segment between insurance carriers, and this enables the Group to measure all of its underwriting businesses on an equal measure. The calculation is discussed further in note 4, operating segments. The combined ratio is calculated as the sum of the claims ratio and the expense ratio.

Return on equity (ROE)

Use of return on equity is common within the financial services industry, and the Group uses ROE as one of its key performance metrics. While the measure enables the Company to compare itself against other peer companies in the immediate industry, it is also a key measure internally where it is used to compare the profitability of business segments, and underpins the performance-related pay and pre-2018 share-based payment structures. The ROE is shown in note 6, along with an explanation of the calculation.

Net asset value (NAV) per share and net tangible asset value per share

The Group uses NAV per share as one of its key performance metrics, including using the movement of NAV per share in the calculation of the options vesting of awards granted under Performance Share Plans (PSP) from 2018 onwards. This is a widely used key measure for management and also for users of the financial statements to provide comparability across peers in the market. Net tangible asset value comprises total equity excluding intangible assets. NAV per share and net tangible asset value per share are shown in note 5, along with an explanation of the calculation.

Prior-year developments

Prior-year developments are a measure of favourable or adverse development on claims reserves that existed at the prior balance sheet date. It enables the users of the financial statements to compare and contrast the Group's performance relative to peer companies. The Group maintains a prudent approach to reserving, to help mitigate the uncertainty within the reserve estimates. The prior-year development is calculated as the positive or negative movement in ultimate losses on prior accident years between the current and prior-year balance sheet date, as shown in note 23.

Five-year summary

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

†Closing mid-market prices.

The five-year summary is unaudited.

Designed by Em-Project Limited
www.em-project.com

Printed by Pureprint
www.pureprint.com

Photography by
Simon Warren
(cover image)
Simon Warren
(reportage images p2, p7, p9, p12, p14, p21, p25, p42, p44, p54, p94, p106)
Simon Warren
(22 Bishopsgate image p22 to p23)
Tony Hay
(22 Bishopsgate image p156 to p157)
Suki Dhanda
(editorial images p17, p18, p39, p40, p51, p52, p69, p70, p79, p80, p103, p104, p145, p146, p153, p154),
Suki Dhanda
(Board images p72 to p74,
GEC images p76 to p77)

Printed in the UK by Pureprint using vegetable inks and their Pureprint environmental printing technology. Pureprint is a CarbonNeutral® company. Both the manufacturing mill and the printer are registered to the Environmental Management System ISO14001 and are Forest Stewardship Council® (FSC®) chain-of-custody certified.

FSC
www.fsc.org
MIX
Paper from responsible sources
FSC® C022913

Disclaimer
This document contains forward-looking statements regarding plans, goals and expectations relating to the Group's future financial condition, performance, results, strategy or objectives, which by their very nature involve risk and uncertainty. Statements that are not historical facts are based on Hiscox's beliefs and expectations. These include but are not limited to statements containing the words 'may', 'will', 'should', 'continue', 'aims', 'estimates', 'projects', 'believes', 'intends', 'expects', 'plans', 'seeks' and words of similar meaning. These statements are based on current plans, estimates and projections as at the time they are made and therefore undue reliance should not be placed on them.

A number of factors could cause Hiscox's actual future financial condition, performance or other key performance indicators to differ materially from those discussed in any forward-looking statement. These factors include but are not limited to future market conditions; the policies and actions of regulatory authorities; the impact of competition, economic growth, inflation, and deflation; the impact and other uncertainties of future acquisitions or combinations within the insurance sector; the impact of changes in capital, solvency standards or accounting standards or relevant regulatory frameworks, and tax and other legislation and regulations in the jurisdictions in which Hiscox operates; and the impact of legal actions and disputes. These and other important factors could result in changes to assumptions used for determining Hiscox results and other key performance indicators.

Hiscox therefore expressly disclaims any obligation to update any forward-looking statements contained in this document, except as required pursuant to the Bermuda Companies Act, the UK Listing Rules, the UK Disclosure Guidance and Transparency Rules or other applicable laws and regulations.

Hiscox Ltd

Chesney House
96 Pitts Bay Road
Pembroke HM 08
Bermuda

T +1 441 278 8300
E enquiries@hiscox.com
www.hiscoxgroup.com

22185 03/23