



YearEnd21

Hiscox Ltd Report and Accounts 2021



People matter

Employees from across the business talk about the key developments in their areas during 2021, and what the 'human' value means to them.



Opportunity knocks

Aki Hussain, our new Group Chief Executive Officer, sees opportunities everywhere for Hiscox. He discusses his vision for the future, how he measures success, and Hiscox's growth ambitions.



At your service

Hear from the frontline about how we focus on having conversations, not just transactions, with customers.



**Opportunity knocks**

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Q& A:

with Chloe Garbutt
Insurance Expert, Hiscox UK

At your service

Excellent customer service is central to the Hiscox proposition, and it all begins with the people on the front line taking the calls.

Chloe Garbutt, whose photo features on the cover, works in the Hiscox Customer Experience Centre in York in a sales and service role as part of our UK home insurance team.

Q: How did you come to work at Hiscox?

A: I applied when I was 18, straight out of college. At the time, I was working as a kickboxing instructor, so this was a bit of a change of scene! I've grown so much though, as a result of my work at Hiscox. Every day you'll get asked a question that you've never had to answer before. Insurance can be complicated, so it's understandable that people would have questions. It keeps you on your toes, it makes you better at your job, and it means you're always learning. But you're not thrown in at the deep end – there's lots of support and a real focus on learning and development. For example, we get at least an hour's coaching every week to help us develop our confidence and knowledge.

Q: How would you describe your team's approach to service?

A: Everything we do revolves around our customers. We want them to feel valued. We want to give them the best service possible. We sell our products on our service and the competitive cover we offer, and we want to be different to the type of slightly

automated, highly scripted customer service that we've all experienced – it's frustrating, and it's just not Hiscox. We're not robots and we've always prided ourselves on not using scripts. It's one of the things that struck me during the recruitment process in fact – that there was such a focus on hiring for attitude and customer focus. We want to have natural conversations with our customers and I hope that comes across in every interaction a customer has with us.

Q. What do you enjoy most about your role?

A. I would consider myself a 'people' person so for me it is the people – and not just my colleagues, but also the interactions I get to have with customers. So many of the customers we talk to in the home insurance team are happy because they're buying a new house, or they're excited to start some home renovations, or they've just got engaged, and so their insurance requirements have changed. It's really lovely to be part of those stories and I hadn't appreciated how rewarding it would feel to be a small part of someone's big life event before I worked in insurance.

Q: What do you see yourself doing in the future?

A: I have absolutely no idea. The good thing is that there are a lot of opportunities for

people across Hiscox – I have colleagues who started in a role like mine and have gone on to do a whole host of other roles within Hiscox, including in underwriting, project management and corporate governance.

Q: In October, you shaved your head. What was the motivation for that?

A: Both my grandparents have had strokes – my Grandad had three in three years, and my Nanna had two last year – so I wanted to do something to raise money for the Stroke Association. My hair was really long, so I shaved my head to raise money, and donated the hair to the Little Princess Trust, which provides wigs for young people who've had cancer treatment. It's something that definitely pushed me outside of my comfort zone but I'm so glad I did it. One of Hiscox's values is 'human' and this is one way that I think I personally lived the value in 2021.

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

We are 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. As a company listed on the London Stock Exchange, we comply with the requirements set out in the UK Corporate Governance Code 2018 and the Listing Rules and Disclosure & Transparency Rules of the UK Listing Authority. Our remuneration report is consistent with UK regulations. Any additional disclosures over and above these requirements, have been made for the benefit of shareholders, on a voluntary basis.



At Hiscox people matter

Having a human approach to our work is really important to us. At Hiscox, we care immensely about the job, each other, our customers, partners and the brand.

It's why we always aim to understand the person behind the policy or claim, the job description or task. This means we try to be clear, fair, and inclusive, and to treat everyone around us with the respect they deserve.

Living our human value isn't just about grand gestures, it's also about the 'tiny noticeable things' that can make a huge difference to a customer or a colleague during the good times and the bad.

In the pages that follow, you will hear from people across our business on what being 'human' means to them.

Q&A:

with Aki Hussain
Group Chief Executive Officer

Opportunity knocks
The Group's new Chief Executive Officer sees his main role as 'clearing the path' for others to do their jobs to the very best of their ability.

Aki Hussain is the new Group Chief Executive Officer of Hiscox, having stepped up to the role in January 2022. He joined the business in 2016 as Group Chief Financial Officer.

Q: When you joined as Group Chief Financial Officer back in 2016, what was it that drew you to Hiscox?

A: I loved the culture and the ethos – and, quite frankly, the scale of the opportunity. The thought of being able to work in a more entrepreneurial environment, an organisation that is much closer to the start of its journey, was and still is incredibly exciting to me.

Q: What do you think is the most important quality for a leader to have?

A: You have to be able to recognise that you're there to serve the organisation. It's not about you. The way I see it, one of my major roles is what I call 'clearing the path'. We have a clear strategy and great people who are trying to do the best they can every single day, and a

massive part of my job is to clear the path to allow that to happen. Business is never straightforward, environments change, so continuously clearing the path so that people can give their best is absolutely key.

Q: This is the first time you've fronted a whole business. How are you finding the step up?

A: I've had lots of experience of running large, complex operations and I've always taken ownership of everything I've done, but being the Group Chief Executive Officer is totally different. Taking on that responsibility, realising that the buck really does stop here, that the problem is not going to go anywhere else – that's something I'm getting used to, and I'm enjoying it immensely.

Q: Is growth still the most important measure of success?

A: It's one of many, but a very important one. But growth is not an end in itself; it's just an indicator that we're doing things right. Partly, it's a



barometer of the choices we make: through good decisions made over a long period of time, we're now exposed to markets in the USA, the UK and continental Europe that are growing quite quickly, and that really helps. Then you've got to ask: why do we do what we do? Our expertise helps individuals and businesses realise their own strategies and ambitions while minimising the chances of ruin. If we do that, if we serve our customers to the best of our ability, growth is going to come.

Another key mark of success for me is having people who are happy and proud to work at Hiscox. If we have those three things – happy people, satisfied customers, and the ability to innovate in a rapidly changing environment – I'll be pretty satisfied.

Q: What do you think are Hiscox's biggest strengths?

A: In our London Market and reinsurance businesses, our big advantage is that we have deep underwriting expertise, built over many, many years. In our retail business, that underwriting pedigree is complemented by the brand we've built and the investment we've put into technology. Companies like Google and Amazon have completely transformed the way people interact with the internet – click just three or four times and you've bought something. For insurance, and certainly the kind of specialist insurance we provide, that's quite unusual, but through our investments in technology, underwriting and pricing, that's what we're able to provide.

Q: As the retail business grows, what kind of relationship do you want to have with customers?

A: I'm not naïve about this – we're never going to be able to create the depth of relationship that a customer might have with their favourite retailer. But nor do we see buying insurance as a one-time transactional

relationship. We want to create an ecosystem that takes into account the cycle of a customer's life or business. Our ambition is to understand and predict how their insurance needs will change over time and what sort of help they might need through that process. We're not there yet, but it's something we're very focused on.

Q: What does sustainability mean to Hiscox?

A: It means building for the future, not just for the short term. It means understanding long-term risk, investing in technology, investing in people and building their capabilities, understanding that we have a role to play in the communities in which we operate, understanding our customer base, and, given the range of environmental changes we're seeing today, thinking about the impact of our work on the planet. Ultimately, it's about being a responsible organisation, understanding that we're not an island, and building a business for the long term.

Q: How do you see the human value being applied at Hiscox?

A: I see it most tangibly in the interactions, the interdependency, the teamwork. Here, the awareness people have of each other's welfare is palpable. I've seen it in other organisations, but not turned up to that level. Everybody here is approachable. My door is always open, and people from all parts of the organisation can come to me with questions and ideas. My job is to clear the path, but how do you clear a path for people if they don't feel they can tell you truthfully what's going on? Ours is an environment where a graduate who has just joined the business can put me on the spot, ask difficult questions, or highlight something that I wouldn't otherwise know. I think that's quite human. I also think it's quite normal.



Our key performance indicators (KPIs)

Financial KPIs

Gross premiums written
\$4,269.2m

2021	4,269.2
2020	4,033.1
2019	4,030.7
2018	3,778.3
2017	3,286.0

Net premiums earned
\$2,919.9m

2021	2,919.9
2020	2,752.2
2019	2,635.6
2018	2,573.6
2017	2,416.2

Profit/(loss) before tax
\$190.8m

2021	190.8
2020	(268.5)
2019	53.1
2018	135.6
2017	37.8

Combined ratio
93.2%

2021	93.2
2020	114.5
2019	106.8
2018	94.4
2017	98.8

Basic earnings/(loss)
per share
55.3¢

2021	55.3
2020	(91.6)
2019	17.2
2018	41.6
2017	8.1

Ordinary dividend
34.5¢

2021	34.5
2020	0.0
2019	13.8
2018	41.9
2017	39.8

Net asset value per share
739.8¢

2021	739.8
2020	689.0
2019	768.2
2018	798.6
2017	817.1

Tangible net asset value
per share
648.6¢

2021	648.6
2020	601.5
2019	670.6
2018	726.2
2017	751.5

Return on equity
8.1%

2021	8.1
2020	(11.8)
2019	2.2
2018	5.3
2017	1.0

Non-financial KPIs

UK gender pay gap 19.1%

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

2021	19.1%
2020	21.2%
2019	26.1%
2018	28.8%
2017	31.1%

London Market broker satisfaction 71%

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.

2021	71%
2020	69%
2019	78%
2018	76%
2017	66%

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.

2021	92%
2020	92%
2019	89%
2018	90%
2017	90%

Employee engagement 64%

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, and improving our employee engagement scores is a focus for 2022 as part of our work around building connected teams with shared values (see page 11).

2021	64%
2020	68%
2019	71%
2018	74%
2017	77%

Germany customer satisfaction 95%

In Germany, 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 both quantitative analysis on how they would score their experience with us, and also 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.

2021	95%
2020	90%
2019	99%
2018	99%
2017	97%

US customer reviews using Feefo 4.8/5

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

2021	4.8
2020	4.8
2019	4.8
2018	4.7
2017	4.7

Our purpose, values, culture and vision



Our culture and values are a really important part of our employment proposition. They are distinctive, they attract people to Hiscox, and they are a big part of why people stay with us for so long.”

Amanda Brown
Chief Human Resources Officer

Our purpose

As experts in risk, we give people and businesses the confidence to realise their ambitions. To do this we need differentiated products and services, great talent and a winning spirit. Success is measured in our reputation and financial performance.

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 are considered in our strategy and how we operate (see pages 8 to 9). Our values play an important part when it comes to being a business our customers can relate to, and to 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.

In our 2021 annual global employee engagement survey, which was completed by 85% of employees:

- **90%** said they believe in our corporate values;
- **83%** said employees are treated fairly, regardless of disability, age or professional background;
- **73%** said they felt proud to work for Hiscox.

During 2021 we:

- attracted **644** new talented permanent employees;
- promoted **368** existing employees;
- delivered over **43,500** hours of staff training worldwide.

Our culture

We work hard to nurture our culture, and it is something we regularly measure and monitor to ensure we keep it alive. We have a number of culture standards we wish to live by, such as diversity and inclusion, diligence in risk management, good leadership, integrity and respectful behaviour. As Lloyd's participants, these also contribute to the wider market focus on culture and talent.

We are also embedding new hybrid working practices that balance the ability to work remotely with the culture, collaboration and energy of our offices. This has required new technology and tools to ensure a seamless remote working experience, but it has also meant a re-engineering of our existing office space – with greater use of hot-desking and the creation of 'neighbourhoods' that bring teams and like-minded functions together.

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 to be seen as an industry leader in attitude, sales growth, profits and value creation.

Our values



Our strategy and how we operate

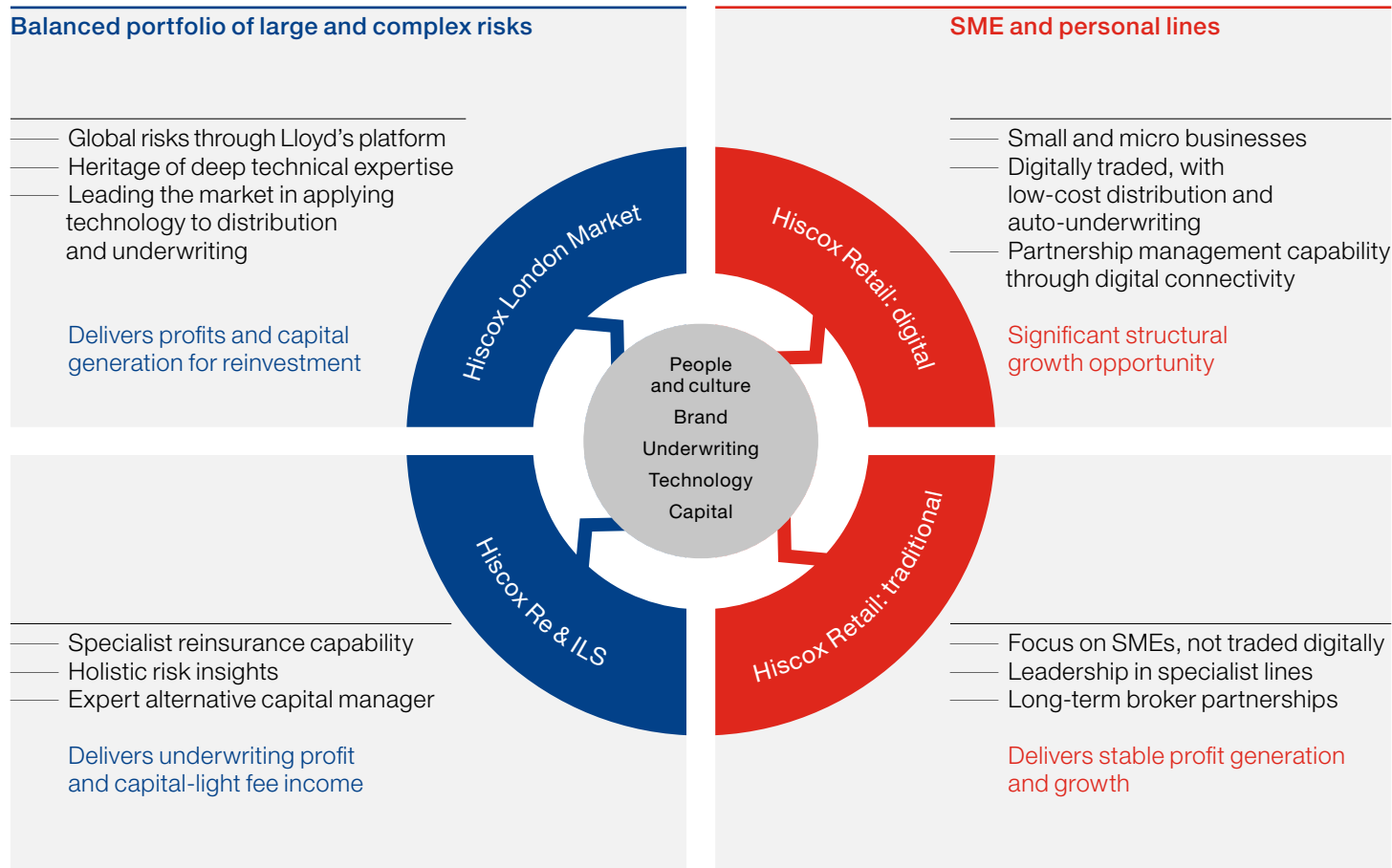
We have built a good reputation as a specialist insurer in our chosen segments through a long-held strategy of balance between our big-ticket and Retail businesses – where greater volatility in our big-ticket businesses has typically been offset by more stable returns in Retail – and a long-term investment in a differentiated brand that customers value. This approach has served us well, forming the building blocks of our success, but over time that balance has evolved as the Retail businesses have grown consistently while the big-ticket

businesses have been subject to a more cyclical environment.

As the external environment evolves and new opportunities emerge, how we think about balance evolves too. In Hiscox London Market and Hiscox Re & ILS, we have begun building out more balanced portfolios with an emphasis on leading the business we write. This means Hiscox underwriting plays a greater role in risk selection and contractual terms, with greater control over growth. Volatility exists in every part of insurance, but through

a focus on building and maintaining balanced portfolios we will create more manageable volatility across the Group. By thinking about balance in this way, we believe we can maximise both the profitable, cyclical growth and the structural growth opportunities ahead.

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





Our mix of businesses provides exposure to both long-term structural growth and cyclical trading opportunities. Market conditions are incredibly attractive, and we have a powerful combination of underwriting pedigree, data analytics and investment in technology which I believe sets us apart.”

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 and taking risks to evolve with and lead market change.

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.

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 and 35 offices. We invest in local market knowledge and experience which ensures we understand the markets we operate in and provide relevant products and services. This gives us a unique breadth of expertise, serving customers from one-man-bands 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 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 and business priorities

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

Strategic risk

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

Underwriting risk

The risk that insurance premiums prove insufficient to cover future insurance claims and associated expenses. Likely causes include failing to price policies adequately for the risk exposed, making poor risk selection decisions, allowing insurance exposures to accumulate to an unacceptable level, or accepting underwriting risks outside of agreed underwriting parameters. This includes people, process and system risks directly related to underwriting, and considers emerging external risks such as climate, geopolitical and changing customer trends.

Reserving risk

The Group makes financial provisions for unpaid claims, defence costs and related expenses to cover liabilities both from reported claims and from 'incurred but not reported' (IBNR) claims. Reserving risk relates to the possibility of unsuitable

case reserves and/or insufficient outstanding reserves being in place to meet incurred losses and associated expenses, which could affect the Group's future earnings and capital.

Credit risk

The risk of a reinsurance counterparty being subject to a default or downgrade, or that for any other reason they may renege on a reinsurance contract or alter the terms of an agreement. The Group buys reinsurance as a protection, but if our reinsurers do not meet their obligations to us, this could put a strain on our earnings and capital and harm our financial condition and cash flows. Similarly, if a broker were to default, causing them to fail to pass premiums to us or pass the claims payment to a policyholder, this could result in Hiscox losing money.

Market risk

The threat of unfavourable or unexpected movements in the value of the Group's assets or the income expected from them. It includes risks related to investments – for example, losses within a given investment strategy, exposure to inappropriate assets or asset classes, or investments that fall outside of authorised strategic or tactical asset allocation limits.

Liquidity risk

This relates to the risk of the Group being unable to meet cash requirements from available resources within the appropriate or required timescales, such as being unable to pay liabilities to customers or other creditors when they fall due. It could result in high costs in selling assets or raising money quickly in order to meet our obligations, with the potential to have a material adverse effect on the Group's financial condition and cash flows.

Operational risk

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

Regulatory, legal and tax governance

This relates to the 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.

Climate-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-related risk is not considered a stand-alone risk, but a cross-cutting risk with potential to amplify each existing risk type.



Read more about our key risks hiscoxgroup.com/about-hiscox/risk-management



Read more on risk management in chapter 2, and on our key risks and how we manage them in note 3.



Read more on performance against our 2021 business priorities.



The opportunity ahead of us is huge and I'm personally very excited by our 2022 plans, which build on the progress we've already made in optimising both our underwriting portfolios and our operating model."

Joanne Musselle
Group Chief Underwriting Officer

Business priorities for 2022

Realising the retail opportunity

We will continue to build on our multi-year investments in technology during the year ahead, as we look to realise the significant growth opportunities that exist across our retail operations. Our head start in digital small business insurance in the UK, USA and a number of European markets positions us well to serve the needs of this high-growth segment of the economy. We will use customer analytics and insights to continue to enhance our digital trading strategy to best support the evolving buying behaviours of our customers.

Balancing big-ticket growth with volatility

With Hiscox London Market and Hiscox Re & ILS currently enjoying more favourable market conditions, in 2022 we will leverage our unique combination of underwriting and digital expertise to achieve profitable growth while balancing volatility. This will involve the use of balanced performance metrics and require best-in-class underwriting, active portfolio management and technical excellence.

Technical excellence

The strong progress made in 2021 in optimising our underwriting portfolios provides a solid basis for further work in 2022. We will continue to address lower decile lines through active portfolio management, as we dynamically adjust to evolving market conditions and maintain an optimum portfolio mix. Equally, we will look to grow in top quartile lines and in line with our

ambitions. We will also build on progress made in the Group's underwriting controls and governance around product, pricing, appetite and wordings by finding new and improved ways to share data, insights and expertise across claims, underwriting and reserving and the areas that support them.

Operational efficiency

In 2022, we will build on the operational efficiencies realised in 2021 in areas such as procurement and operations, where automation has played a part, and in the rebalancing of our global versus local capabilities. We will continue to evolve our operating model to ensure we have the right structure to enable fast decision-making, and a strong culture of accountability. We will also review and refine our supplier assessment and management processes. This will include new tools that improve consistency in our procurement processes and ensure factors such as ESG are considered in decision-making.

Connected teams with shared values and mindset

The global pandemic has changed where and how we work, and in 2022 we will continue to embed the new hybrid working styles that we established in 2021. This means an ongoing focus on activity-based working; balancing the more autonomous tasks that can be achieved through remote working, with those that require the collaboration and energy of our offices. It also means finding new ways to communicate a common vision, and a strategy that unites our people. In addition, we will look to find new ways to enhance our employee proposition and evolve our approach in areas such as employee benefits, in line with our ambitions to be an employer of choice within our sector.

Why invest in Hiscox?



Hiscox is a diversified and resilient business with a great runway of future opportunity in both Retail and big-ticket lines. This, along with our unique combination of underwriting and digital expertise, talented people, powerful brand and robust capital position, is a real differentiator in the market.”

Liz Breeze
Interim Chief Financial Officer

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.

148%

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.

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 our market shares remain modest, the size of the addressable market is huge, giving us plenty of headroom for growth; and in our big-ticket businesses, where we now lead on more open market risks, our combination of underwriting and digital expertise differentiates us.

50m SMEs

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

300%

increase in Retail customer numbers across the Group since 2013.

68%

Hiscox London Market now leads on 68% of the business it writes, 14 percentage points more than it did five years ago.

*Based on special, ordinary and Scrip Dividends paid to shareholders since 1 January 2012. Excludes the final dividend proposed for 2021.

Big-ticket business

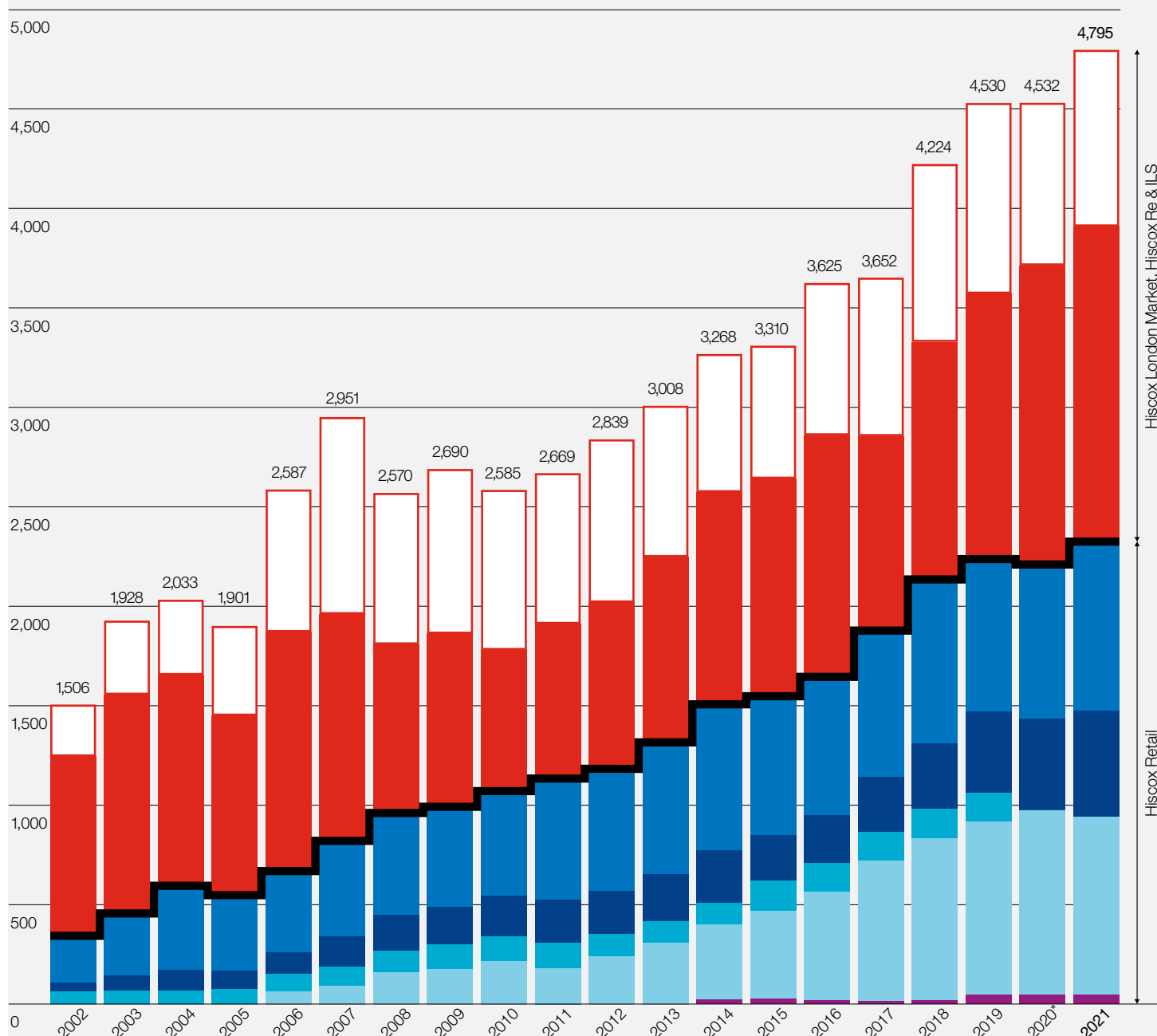
- Hiscox Re & ILS
- Hiscox London Market

Retail business

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

*2020 restated for Hiscox Special Risks.

Total Group controlled income (\$m)



Q&A:

with Kevin Kerridge
Chief Executive Officer, Hiscox USA

An Englishman in New York

From a standing start just over a decade ago, Hiscox USA is now the country's leading digital small business insurer and is busy reshaping its broker business.

Kevin Kerridge has worked for Hiscox for over 25 years. In 1999, he was given the task of, in his words, 'figuring out what we should do on this thing called the internet'. Ten years later, having played a major role in developing the brand's digital operations in the UK, he moved to the USA to carry out the same task. He is now Chief Executive Officer of Hiscox USA.

Q: What did you find when you first came to the USA in 2009?

A: I came over here just to scout around and was amazed by what I found: nobody in the small business insurance space, which was our sweet spot, was doing anything on the internet. When you typed into Google 'small business insurance', the message was: 'call us on this number', or: 'fill out this form and someone will come back to you'. We realised at that point how huge an opportunity this was. Within a couple of months, I'd agreed to uproot my wife and four children and move to New

York. It was only meant to be a three-year secondment, but the possibilities here are just so massive. I don't think I – or the Company – ever looked back.

Q: What does the US business look like now?

A: We are now almost a billion-Dollar business in terms of top-line revenue. The most exciting thing is that today we're America's leading digital small business insurer. We've got more digital scale than anybody else out there, even compared to the biggest brands, brands that have been around for 100-plus years. At the other end of the scale, there are a number of start-ups with great ideas and technology, but the great thing is we've got more scale and capability than them. If you're a start-up, you're clamouring to get traction, but we're sitting here with over 600,000 policies in force. We're in the middle of those two things – the incumbent giants and the nimble start-ups – and we feel good about that.



The scale we've reached also means that we've got a wealth of data that will help with our future assessment of risk. Digital business is all a data game. We don't have underwriters sitting there looking at individual applications that come in. It's the machine that's doing the underwriting. The other thing that's happening right now is that we're using a lot more third-party data. Use of third-party data will be a big strategic battleground for us in the future.

Q: Looking back at 2021, what were some of the big highlights for you?

A: We've continued to make strides on our digital business. We're really keeping that momentum going. Despite the economic and social impacts of Covid-19, which have obviously been terrible, from our perspective it's caused a real tailwind. When the world shut down, everyone in the insurance space was like: "Blimey, how do we do business?". They're used to bricks and mortar, face to face. Now everyone's having to consider a digital model, and because we're so well advanced that has played to our strengths.

Then on the more traditional side, which is still around 50% of our US business, we're going through this thing called A25, which is short for 'accelerate to 2025'. We've been reshaping the broker business here because it's not been profitable enough, quite frankly. We made good progress in addressing this in 2021.

Q: So, you're feeling positive about the future?

A: I am. This past year has been an emotional one for those of us who've been here a long time. We've celebrated Bronek's contribution over the past few decades and now we've got a new leader in Aki, who's bringing a fresh perspective and looking to

realise the next phase of our growth. We're just about to start this new chapter, and I think that's really exciting.

Q: How do you see the human value being applied at Hiscox?

A: When I think about our values, we've always been strong on things like courage and ownership, but the two that have really come into their own recently have been connected and human. Because of Covid-19, and because of the important conversations that began here in the wake of George Floyd's death, we've really leant into those values in a big way. We've thought a lot about how we can be more supportive, more inclusive. We've started a development programme for diverse talent, we've given our people time off to attend peaceful protests, and that's really just the beginning.

Q: What was your experience of the lockdowns of the past two years?

A: It wasn't until I first saw a lot of people back in the office again, and started going to events with our brokers, that I realised just how much we'd missed. It's like the frog in the pot: when the temperature's turned up slowly, you don't really notice. You forget how life used to be. When you see people back in the office, gathered around a screen, trying to solve a problem – or you've got new people making themselves heard, getting on-boarded in person – it's then that you realise how much we missed out on, how much of that social capital got eroded over that period.



Chairman's statement





I am pleased to report that our skilled underwriters have substantially contributed to a very good result in a period of low investment returns. Joanne Musselle, Group Chief Underwriting Officer, has provided strong leadership and the active portfolio management is producing results. We have strong teams in place to make the most of the opportunities ahead."

Robert Childs
Chairman

The Retail businesses are going well; Hiscox Europe in particular. The UK and USA divisions are making great strides in their direct and partnerships business, where we maintain a strong competitive advantage. Hiscox USA is on track, increasing rates and trimming the portfolio in broker lines. In the UK, the broker business continues to do well, particularly in our commercial lines business.

Our big-ticket businesses in London and Bermuda are benefitting from good risk selection and substantial rate rises. Digital initiatives in Hiscox London Market are broadening

our appetite and providing new opportunities. In Hiscox Re & ILS, our prudent approach to reserving and discipline in risk selection has delivered an excellent result in another year of higher than average natural catastrophes.

We are in this business for the long term, innovating through deep market expertise, embracing technology, and unafraid to take risks to evolve. In 2021, particularly in the UK, we have had some challenges, but we have learned a lot. Courage is one of our values and we have needed it in 2021, but Hiscox is a stronger business for it in 2022.

We are pleased that our good performance has allowed the Group to resume paying dividends with the 2021 interim results and the Board is pleased to propose a final dividend for 2021 (subject to shareholder approval) of 23 cents per share. The record date for the dividend will be 6 May 2022 and the payment date will be 13 June 2022. The Board proposes to offer a Scrip alternative, subject to the terms and conditions of Hiscox's 2019 Scrip Dividend Scheme. The last date for receipt of Scrip elections will be 20 May 2022 and the reference price will be announced on 30 May 2022.

People

Following Bronek Masojada's decision to retire at the end of 2021, we announced the appointment of Aki Hussain as our new Group Chief Executive Officer back in July. Aki has 22 years' experience working in financial services, telecoms and media which we are benefitting from. Having worked with Aki over the last five years I have seen his strong leadership as our Group Chief Financial Officer first-hand, his capable management of the Group's finances in what has been a challenging period for Hiscox and the industry while delivering a highly complex finance transformation programme. Over the years, the Board and I have seen the energy, passion and determination with which Aki operates, and this combined with a strategic mindset and clear ambition for building a customer-focused businesses, means he is well placed to shape our future strategy and capture the vast opportunities ahead.

I would also like to take this opportunity to pay tribute to the outstanding contribution that Bronek has made in leading the strategic development of the Group over the last three decades.



Courage is one of our values and we have needed it in 2021, but Hiscox is a stronger business for it in 2022.”

I had the pleasure of working with Bronek for over 28 years and throughout that time, his leadership skills, tenacity and desire to build a better business have shone through. With Bronek's energy and commitment, we have overcome some of the biggest challenges the industry has faced, and seized some of the greatest opportunities. His intellect and vision built Hiscox from a small private company to a FTSE 250 with \$4 billion of premium – which is an immense achievement.

Following nine years of service, including six as Chair of the Audit Committee, Caroline Foulger will retire from the Ltd Board at the 2022 AGM. I have valued Caroline's counsel greatly over the years and would like to thank her for the passion and challenge she brought to the role. Ahead of Caroline's retirement, Donna DeMaio joined the Board as an Independent Non Executive Director at the end of 2021 and will replace Caroline as Chair of the Audit Committee. Donna has an impressive financial services background and experience of the US market which we will benefit from.

We also strengthened our subsidiary Boards with the appointment of three new Independent Non Executive Directors. Mark Cliff and Jane Hayes joined Hiscox UK while James Illingworth joined Hiscox London Market; between them they bring a wealth of industry knowledge, underwriting and distribution expertise.

Environmental, social and governance

We take ESG seriously and we have made significant progress this year. The Board has been very supportive and the staff enthusiastic. We started 2021 by approving our ESG exclusions policy which sets out our ambition



From left to right: Robert Childs, Joanne Musselle, Aki Hussain and Bronek Masojada.



Aki's deep knowledge of the Hiscox Group, combined with a strategic mindset and ambition for building customer-focused businesses, means he is well placed to shape our future strategy and capture the vast opportunities ahead."

to reduce steadily, and eliminate by 2030, our insurance, reinsurance and investment exposure to some of the most carbon-intensive industries. We are now embedding the required supporting processes and a dashboard to measure our progress. We continue to attract and develop top talent: last year we welcomed 644 new permanent employees and made 368 internal promotions. It is thanks to the hard work, ingenuity and flexibility of our colleagues across the globe that we have been able to continue to support our customers and brokers during the pandemic. We paid out \$1.25 billion in claims last year across the whole business – from exceptional events like Covid and catastrophes, to the more frequent fires and thefts. We have also contributed very substantially to the restitution of many businesses through indemnifying them following their loss.

We have also served our communities through our charitable work, resulting in \$1.5 million being donated to good causes and over 1,000 volunteering hours – from beach clean-ups in Bermuda to plastic fishing on the River Thames.

We continue to focus on improving diversity at all levels. Our 15 employee network chapters play an important part in this, but so too does our diversity reporting. 2021 marked our fifth year of UK gender pay reporting and although our gender pay gap has been steadily reducing since 2017, it continues to be predominantly driven by more men than women holding more senior roles. In this respect it is important to show leadership: our current Board diversity is 55% men and 45% women, and the newly formed Group Executive Committee comprises 40% men and

60% women. There is more work to do throughout the Company but we are on a positive trajectory.

Outlook

Hiscox is a growing company. We aim to grow our top-line profitably in this underwriting climate and continuously attract first-rate talent. We are embracing, and in many cases leading, the digital revolution in insurance and continue to invest. Aki has clear and exciting plans that are motivating our people and which the Board supports.

In the insurance industry, catastrophes can happen at any time, but there is a fair wind behind us and I am looking forward to a great year – we are disciplined, rates are up, we are attracting exceptional talent, and the opportunity ahead of us is huge.

Robert Childs
Chairman
2 March 2022

Chief Executive's report



I am pleased with the strong results the Group has delivered despite elevated natural catastrophe losses, reflecting successful execution of our strategy and the management actions we have undertaken to improve the performance and quality of our portfolios.”

Aki Hussain
Group Chief Executive Officer

On 1 January 2022, I officially assumed my role as the Group Chief Executive Officer of Hiscox and I am pleased to be able to report a strong 2021 result for the Group. Hiscox delivered a pre-tax profit of \$190.8 million (2020: loss of \$268.5 million) and a combined ratio of 93.2% (2020: 114.5%), despite reserving \$223.8 million net of reinstatement premiums for natural catastrophe losses in an elevated catastrophe loss environment. This strong performance is the outcome of proactive portfolio actions undertaken over the last few years to improve our margins.

Bronek Masojada, who retired as Group Chief Executive Officer at the end of 2021, left the business in good shape and I am delighted to be taking the reins at this exciting juncture with plentiful opportunities ahead. In my first CEO statement I would like to share my views on the ambition we have as a business and how we are going to achieve it. I will also provide the usual commentary on business performance in 2021.

Strategy

Our long-standing strategy of balance has served us well through the years, allowing us to generate \$4.3 billion of profits over the last two decades, while

also seeding and organically growing Retail to the \$2.3 billion gross premiums written business it is today. The greater volatility in the big-ticket businesses has been balanced, or offset, by more stable returns in Retail (2020 being the exception when the result was affected by the global pandemic). Excess profits in our big-ticket businesses have been used to fund our Retail expansion. This strategy has allowed the Group to build a solid platform to expand its footprint and product offering through multiple distribution channels, develop a recognised global brand and nurture a reputation as a leading specialist insurer with deep technical expertise.

We remain committed to the concept of balance, however, as our markets are evolving, so too is the way we think about balance. We are in the business of taking calculated risks, so while volatility is an inherent feature of our business model, we are also focused on building a business that delivers sustainable, attractive returns. As our strategy continues to evolve, our focus is on building more balanced portfolios within each business, with an increased focus on and use of the Hiscox underwriting ecosystem, which includes underwriting, pricing, claims analytics, reserving, research and modelling, in our chosen lines of business.

The fundamentals of our strategy remain unchanged: we continue to have strong competitive positions in all our business segments, but managing volatility across the Group will pave the way to maximising the long-term structural growth opportunity we have in our Retail businesses. Our purpose is 'to give people and businesses the confidence to realise their ambitions' and this remains core to our strategy.



In summary, this is strategic evolution as we evolve our business model to make the most out of the opportunity in each of our businesses, with each playing a critical role in what it brings to the Group and our strategic ambitions. I think about our business in four component parts – Retail digital, Retail traditional, London Market and Re & ILS¹. Each component faces unique opportunities and challenges, which informs the role that each will play in our future growth and success, underpinned by our long-term investment in both underwriting and digital expertise.

Retail digital – significant structural growth opportunity

Retail digital presents the Group's most significant long-term structural growth opportunity. This business has benefitted from the secular trends in society where our customers and partners increasingly want to deal with us digitally. Across our geographies, there are approximately 50 million SMEs, so the market is huge and we are barely scraping the surface of the opportunity ahead; I expect our digital platforms to grow strongly for many years to come.

In this new and emerging landscape, Hiscox has developed market-leading capabilities including products designed to meet customer needs, strong brand awareness, an underwriting ecosystem and investment in technology; this has enabled a significant part of the value-chain to be automated, while delivering superb customer service. Capturing this opportunity is not simply about deploying cool technology, we are underwriters

first and foremost, technical rigor and disciplined risk management are a prerequisite. We see technology as being an enabler, allowing Hiscox to access new markets in new ways.

Through long-term investment Hiscox now has market-leading platforms in the USA and UK and an emerging digital business in Europe. The opportunity is particularly significant in the USA where we believe we will continue to win in the long run, becoming one of the dominant players, so it makes clear strategic sense to continue investing in this business.

Building scale is important, not just for operating leverage and cost efficiency, but to drive further growth. Expanding our customer base will make us into an increasingly attractive distribution partner. Over time our objective is to build a marketplace for our customers, offering a broad range of insurance products catering for all their key needs. Some of these products Hiscox will underwrite on our own balance sheet, while others we will offer through our expanding range of reputable partners. The aim is to create a small business commercial insurance marketplace in which Hiscox is a central and meaningful player.

Our confidence in being able to succeed comes from the strength of our core Group capabilities – our powerful brand, the cross-divisional fertilisation of data and analytics to improve underwriting decisions and our ability to selectively invest from the Group's capital pool to keep our client service and scalability of platform market-leading.

Retail traditional – source of continued growth and profitability for the Group
Our Retail traditional business, which is distributed and serviced through the

traditional non-digital channels, has been the backbone of growth and profitability for the Retail division and in recent years for the Group (with the exception of 2020 that was affected by the pandemic) as we have traded through challenging market conditions in our big-ticket businesses.

Over the years we have built this business carefully by being specialists in attractive and large niches, getting to know our customers' needs intimately, building strong distribution partnerships, maintaining robust risk selection and delivering excellent customer service. We operate in meaningful niches with material further growth potential, while we also explore new adjacent niches with specialist distribution partners, into which the business can expand. This business will continue to evolve: for instance, we are in the process of reshaping our US broker channel book to focus on smaller business, and we are making changes to further improve our broker service model in the UK. This is all part and parcel of building a sustainably profitable business. This business will continue to provide growth and most of the Retail profits over the next five years.

Hiscox London Market – underwriting pedigree meets trading innovation

Hiscox's roots lie in the London Market. This is our heritage and where we have built a tremendous track record of delivery. Our business continues to evolve as we develop deeper underwriting expertise and data analytics in our specialist areas. We now lead over two-thirds of the business we write in premium terms, compared to just over a half four years ago. This ensures we have much more control of the business and the terms on which it is being written, in short, the Hiscox underwriting ecosystem is driving decisions. I am also excited

¹These are Group strategy business components. Accounting segmentation, which reflects how the businesses are managed, remains unchanged, as represented in 2021 financial performance sections.

An actively managed business

Total Group controlled premium 31 December 2021: \$4,795m

Period-on-period in constant currency

Small commercial	Reinsurance	Property	Specialty	Art and private client	Global casualty	Marine and energy
+2%*↑	+8%↑	+3%↑	+9%↑	0%	+6%↑	-1%↓
\$1,707m						
Professional liability Errors and omissions Private directors and officers' liability Cyber Commercial small package Small technology and media Healthcare related Media and entertainment						
	\$917m					
	Property Marine Aviation Casualty Specialty					
		\$562m				
		Commercial property Onshore energy USA homeowners Flood programmes Managing general agents International property				
			\$482m			
			Kidnap and ransom Contingency Terrorism Product recall Personal accident			
				\$479m		
				Home and contents Fine art Classic car Luxury motor Asian motor		
					\$359m	
					Public directors and officers' liability Large cyber General liability	
						\$289m
						Cargo Marine hull Energy liability Offshore energy Marine liability

*8% including \$109m of US exited business.

about Hiscox London Market pioneering digital underwriting and distribution in the Lloyd's market with its HiscoxPlus suite of products reaching a critical mass of over \$100 million of gross premium written. While this is still a small proportion of Hiscox London Market's top line, digital distribution and auto-underwriting will continue to grow in both importance and quantum in the years to come, and in 2022 we expect this business to double to over \$200 million.

Hiscox London Market provides cyclical growth opportunities, expanding and shrinking as market conditions change. Since 2017 conditions have been improving and we now enjoy rate adequacy in all of our lines. We have used these improving market conditions to create a better-balanced portfolio of business, improve terms and conditions, expand margins and grow net revenues in business lines with better risk-adjusted returns. As I look forward, the improved balance and control, combined with stronger margins and therefore resilience in the portfolio position us well for generating attractive risk-adjusted returns through the cycle.

Hiscox Re & ILS – specialist capabilities complemented by third-party capital model

Hiscox Re & ILS is also part of our heritage and once again a business that has had an excellent long-term track record. This business operates in a market where conditions are cyclical, although the shape of the cycle has changed over the last decade. The development of insurance-linked securities (ILS) platforms has resulted in new and efficient capital coming into the market. We have capitalised on this opportunity and Hiscox Re & ILS has built a successful ILS proposition, providing a mechanism for lowering the cost of

capital for the business and providing a means of scale in specialist areas in which the business participates.

Market conditions have significantly improved, although further rate increases are necessary in some areas to genuinely achieve satisfactory returns through the cycle. We have used the last few years to refocus on business lines in which we have deep expertise, thereby creating a balance which is consistent with our underwriting expertise. This combined with improving market conditions is increasing the resilience of the portfolio and creates the capacity to grow in lines where the returns are stronger. Looking forward, the improved resilience in the portfolio, together with the growth of ILS AUM, is expected to drive much-improved generation of capital and profits through the cycle.

These component parts of our business enjoy a symbiotic relationship. The development of market-leading underwriting capabilities, deep relationships, innovation and entrepreneurial drive have traditionally come from the big-ticket businesses. In recent years, operational know-how, new-generation digital technology, data analytics and the auto-underwriting expertise of the Retail digital business have been supporting growth in the rest of the Group. It is this ecosystem wrapped in the unique culture of Hiscox that is a source of strength and has helped the business to withstand the external challenges of recent years in order to continue to deliver a resilient performance.

Turning to the 2021 financial result.

Rates

Rate momentum continues to be favourable across all business divisions.

However, as the rating cycle unfolds at a different pace, the dynamic is slightly different by business segment.

Hiscox London Market began benefitting from rate increases as early as 2017 and has seen a cumulative rates increase of 60%. In 2021, we saw a 13% average rate improvement. While rate growth is continuing, the speed of increase is now slowing in all lines except cyber. This is particularly pronounced in US public company D&O and US general liability, although the overall rate adequacy remains significantly above the loss experience and expectation. We expect this trend to continue in 2022 with momentum slowing further, however, rate adequacy remains solid and rates are likely to remain in positive territory growing by mid-single digits.

For Hiscox Re & ILS the market started to turn slightly later, but the business has achieved a cumulative rate increase of 35% since 2017. In 2021, Re & ILS saw an average rate increase of 8%. European floods in July, Hurricane Ida's landfall in August and US tornadoes in December were once again a useful reminder of the risks borne by property catastrophe reinsurers. As a result, we have seen better underwriting discipline and further rate strengthening in North American property lines, risk, retro, marine and specialty as well as loss-impacted European business. At the January 2022 renewals we saw 10% reinsurance rate growth, however, it is our view that further increases are necessary to achieve satisfactory returns through the cycle in all property lines. In light of this, Hiscox Re & ILS will continue to be disciplined to ensure the business we write is sufficiently rated to make a sustainable profit.

Hiscox Retail

	2021 \$m	2020* \$m
Gross premiums written	2,290.0	2,180.0
Net premiums written	1,969.3	1,907.8
Underwriting profit/(loss)	34.9	(397.7)
Investment result	26.9	103.4
Profit/(loss) before tax	54.9	(295.6)
Combined ratio (%)	98.9	123.4
Combined ratio excl. Covid-19 and loss portfolio transfer cost (%)	97.3	99.9

*Numbers have been re-presented to reflect reclassification of the Special Risks division.
See note 4 to the financial statements.

Hiscox Retail is generally less cyclical business with rates less prone to extreme fluctuations, yet in 2021 Retail rates increased by 5% on average. This was led by Hiscox UK with rates up 7% and Hiscox USA, where rates in the broker business grew 10%. Even in Hiscox Europe, where rate increases are typically dampened by tacit renewals, we saw increases of 4% on average. Across all regions Retail rate increases are at least adequate or in excess of loss experience and expectation, resulting in sustained or expanding margins.

Across all our business segments, through a combination of an indexed increase to exposure data and increasing rates, we believe we are achieving premium growth in excess of inflation expectations.

Claims

2021 was another year with above-mean natural catastrophe losses. The Group has reserved \$223.8 million net of reinstatement premiums, with Hiscox Re & ILS most impacted. In Hiscox London Market we reduced the property catastrophe exposure in 2021 as we made a conscious choice not to write business where pricing is not deemed adequate. In Hiscox Re & ILS, we continued the re-underwriting action commenced in 2020 as we further reduced our exposure to aggregate covers and increased attachment levels.

In 2021, we saw a continuation of heightened threats in cyber and fine-tuned our cyber appetite, focusing our SME business within Retail, reducing our exposure to ransomware events in Hiscox London Market and reducing cyber aggregate exposure. The Hiscox CyberClear Academy, our free online training program for our smaller customers, goes from strength

to strength: we have now enrolled over 30,000 customers across the geographies in which we operate. Our dedicated central cyber team continues to support our cyber underwriters across the Group, delivering training to our underwriting and claims teams. We now have nearly 20 employees who have gained external cyber security certifications. We have also added significant new features to our Hiscox Cyber Insight tool to support underwriting decisions, including integration with Microsoft Secure Score, which allows us to streamline questions for customers, and gain far greater insight into our customers' security position.

Throughout 2021, we worked closely with customers and brokers in the UK to pay business interruption claims as quickly as possible. As of 31 January 2022, 84% of the claims notified had received an outcome and we expect to maintain the current claim settlement momentum to resolve the outstanding claims. The business interruption claims in aggregate continue to settle within the actuarial best estimate and in addition we continue to hold conservative margin above the best estimate.

The UK business interruption book has now been fully renewed with the appropriate pandemic exclusion terms. We have maintained continuous and transparent dialogue with our reinsurance panel throughout this period and the reinsurance recoveries are now being collected.

Hiscox Retail

Hiscox Retail comprises our retail businesses around the world: Hiscox UK, Hiscox Europe, Hiscox USA

and DirectAsia. In this segment, our specialist knowledge and retail products differentiate us and our ongoing investment in the brand, distribution and technology reinforces our strong market position in an increasingly digital world.

Hiscox Retail grew gross premiums written by 5.0%, or 1.5% in constant currency. Our commercial businesses, which constitute over three-quarters of the Retail portfolio in gross premiums written terms, grew strongly across all geographies. This was partially offset by slower momentum in personal lines and the impact of deliberate portfolio actions in the US broker channel to reposition the business towards smaller customers. We have now exited over \$100 million of the non-core US business and, adjusting for this, the Group Retail underlying portfolio grew by 6.8% on a constant currency basis.

Hiscox DPD business grew gross premiums written by 18.2% in constant currency to \$694 million and now serves over 910,000 customers. In the USA our DPD business grew 25.5% and it now represents almost two-thirds of our global DPD business.

With the more significant portfolio action largely executed in the broker channel, the headline growth rate is expected to trend back towards the middle of the 5% to 15% range for the Retail division in 2022.

Together with delivering robust growth, the Retail business has achieved an underlying combined ratio of 97.3%, a 2.6 points improvement on prior year, despite sustaining a net natural catastrophe loss of \$34 million net of reinstatement premiums. This underpins

our confidence that we are on track to return to the 90%-95% combined ratio range in 2023.

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 of \$831.1 million (2020: \$756.1 million) are up 9.9% or 2.9% on a constant currency basis. The business has delivered a resilient performance, despite the ongoing impact of Covid-19 on events and art exhibitions. The commercial lines business is showing strong growth of 9.9% in constant currency, boosted by rate improvements, maintaining good retention rates and adding a net 45,000 customers. Rate increases were achieved across the portfolio of commercial business led by cyber and professional indemnity lines. In our personal lines business, which includes art and private client and direct home, we have taken deliberate action to rebalance the portfolio and non-renew some of the higher commission business. As a result, we have seen premiums reduce by 4.9% in constant currency, however, this action will improve our business returns. The personal lines business is expected to return to growth in 2022.

The non-natural catastrophe loss performance has been better than the prior year, with a particularly benign first half and return to a more normal claims frequency in the second half.

The outlook for Hiscox UK is positive, with opportunities to continue growing

in our established niches such as technology, consultants and other emerging professions, where Hiscox's competitive advantage is strong and the opportunity is the most attractive. In 2022, we expect to increase our investment in marketing to build affinity with new audiences and accelerate the ongoing positive growth of the digital acquisition channel.

Hiscox Europe

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

Hiscox Europe delivered another strong top-line performance, growing gross premiums written by 9.8% in constant currency to \$532.0 million (2020: \$461.1 million). Rates are up 4% on average, with double-digit rate increases in cyber, commercial property and traditional professional indemnity. A large share of the European book renews in January and our underwriters have been focusing on improving rate adequacy in cyber.

Hiscox Germany, Benelux and Iberia, which together constitute around 60% of Hiscox Europe's gross premiums written, all grew top line at double-digit rate in constant currency, underpinned by healthy growth in commercial lines. Hiscox France, our second largest European business, grew gross premiums written by 5.9% in constant currency despite the impact of continuing course correction actions and delivered strong new business growth. Ireland's performance is up 4.4%, as the business continues to undertake re-underwriting actions.

Europe's DPD business is relatively nascent with gross premiums written of just over \$50 million and is growing well. The digital opportunity in Europe is attractive with around 11 million SMEs in the markets where we operate and about a half of these being our target customers. Hiscox Europe started its direct digital business first in France, almost a decade ago, followed by Germany. In June 2021, the Netherlands became the latest market to launch a digital proposition. Europe DPD is an excellent example of leveraging cross-market expertise and infrastructure with the businesses using common technology and sharing product expertise and marketing collateral.

Similar to the UK, the non-natural catastrophe loss performance has been in line with expectations.

The roll-out of the new core technology is progressing well in Germany and France and we continue to enhance our data infrastructure to drive more sophisticated underwriting and pricing.

Hiscox USA

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

Hiscox USA saw gross premiums written decline 3.9% to \$879.2 million (2020: \$914.6 million). This is in line with our expectations and previous guidance, as a result of planned reductions in our US broker channel. We have now exited over \$100 million of large cyber, stand-alone general liability and other broker channel business which is no

Hiscox London Market

	2021 \$m	2020* \$m
Gross premiums written	1,171.4	1,109.7
Net premiums written	711.5	649.9
Underwriting profit	89.6	94.8
Investment result	15.8	60.5
Profit before tax	104.8	155.2
Combined ratio (%)	89.1	89.2

*Numbers have been re-presented to reflect reclassification of the Special Risks division.
See note 4 to the financial statements.

longer within our appetite. This number is slightly higher than originally indicated, as we successfully accelerated our exit plans in certain portfolios. Excluding the effect of the course correction actions in 2021, Hiscox USA underlying portfolio grew by 9.2%.

Our US digital partnerships and direct business continues to deliver excellent performance, with the top line growing 25.5% to \$424 million, continuing the excellent growth rate achieved the year before. In the first half of the year US DPD grew at 30%, above our expectations, as the business benefitted from the pent-up demand, with the second half more in line with the sustainable growth rate. We have added around 90,000 customers in 2021 with approximately 520,000 now insured. Over 80% of our new customers accessed us digitally and over 90% of new policies were auto-underwritten.

The US digital partnerships business is growing particularly well, as we are benefitting from distribution relationships with over 140 partners. As our business matures and our brand strengthens, more and more of our premium is coming from larger producing partners, which contribute over a million of revenue per annum to Hiscox. Over the last three years the number of these large partners almost doubled to 41 today. One example of such partnership is with Amazon. In August, Hiscox joined a small network of insurance providers to offer general liability insurance to businesses selling in Amazon's marketplace through our existing platform integrations with Bold Penguin and Simply Business.

The US DPD business started 2022 with continued strong growth, however,

this is expected to moderate through the third quarter as we take deliberate action to limit new business to facilitate the migration of our partners and existing policyholders from our legacy policy administration system to our modernised next-generation platform. The new technology will offer a wider product portfolio, improved data collection, better underwriting analytics, upgraded pricing capability and enhanced digital experience for agents and customers. An expanded business owners' policy (BOP) and new cyber product are being launched as part of the new technology roll-out. The migration requires the deliberate slowdown of growth, as we bed in new systems, appetite, products and rating, we expect to complete the process by the end of the year and begin to realise the full benefits of this multi-year technology investment as we head into 2023. In 2022, we still expect full-year US DPD growth of between 15% to 20%.

Hiscox Asia

Despite the challenges of Covid-19 lockdowns in its two Asian markets alongside lower customer demand and aggressive discounting by competitors, DirectAsia delivered gross premiums written of \$47.7 million (2020: \$48.2 million), broadly in line with 2020, as the fourth quarter saw a recovery in revenues. DirectAsia launched brand enhancements campaigns in Singapore and Thailand in November which will continue to run throughout 2022. A reduced claims frequency during the lockdowns together with the continued focus on profitability has resulted in an improved underwriting result.

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 performance in 2021, despite the above-mean natural catastrophe losses. Our underwriters have been working tirelessly to deliver 13% average portfolio rate growth in 2021, with 16 of our 17 lines enjoying price rises and 11 lines benefitting from double-digit rate increases. Gross premiums written grew 5.6% to \$1,171.4 million (2020: \$1,109.7 million), as we continued to execute course correction actions in the property binder portfolios, and build a more balanced and resilient portfolio. Importantly, net premiums written grew by 9.5%, almost two times faster than top line, as the strong rate momentum made retaining more premium attractive. Hiscox London Market incurred \$68.1 million of natural catastrophe losses in 2021 net of reinstatement premiums, mainly from Hurricane Ida, US tornadoes and Storm Uri. In contrast, non-catastrophe experience in London Market was favourable in the first three quarters of the year, albeit several large cyber and casualty losses occurred in the last two months of 2021.

It is particularly pleasing that Syndicate 33, our flagship Lloyd's syndicate, achieved a 82.5% combined ratio in 2021 calendar year, the best result since 2016.

We are making good progress on digital distribution and underwriting. Hiscox London Market's digital strategy started in 2016 with the launch of FloodPlus which offers flood cover to commercial and residential properties in the USA across 49 states as an alternative to the National Flood Insurance Program (NFIP)

Hiscox Re & ILS

	2021 \$m	2020 \$m
Gross premiums written	807.8	743.4
Net premiums written	274.2	192.7
Underwriting profit/(loss)	91.1	(67.7)
Investment result	8.8	33.6
Profit/(loss) before tax	98.5	(35.1)
Combined ratio (%)	68.0	131.8

product. In 2020, we further expanded our product range by launching FloodPlus Excess, offering additional cover in excess of the NFIP. In the five years since inception, FloodPlus has grown to form the majority of our \$100 million flood book with 70,000 customers. Twenty-eight of our coverholder partners are seamlessly connected to our FloodPlus API service that uses advanced algorithms to deliver bindable quotes in less than ten seconds and it is currently averaging 17,000 quotes per week. FloodPlus has advanced risk management capability, allowing the control of aggregate exposure to an extremely granular level. This approach combined with the ability to adjust prices in real time allows the generation of optimal spread of risk through the portfolio.

In 2020, we launched BindPlus Residential which offers private property insurance with coverage for wind, earthquakes, wildfires and any other perils. In March 2021 we extended our BindPlus API offering by launching BindPlus Commercial, supplementing the flood and the household products already on the platform. Our plan for 2022 is to streamline the platform technology and scale it to meet the growth ambition we have for this business.

In February 2022, Helen Rose assumed her role as Chief Financial Officer of Hiscox London Market and Hiscox Syndicates Limited. With more than a decade in the insurance industry, Helen held a number of roles with Aspen Group, including Insurance CFO, UK CFO and most recently Chief Accounting Officer.

Hiscox Re & ILS

Gross premiums written increased by 8.7% to \$807.8 million (2020: \$743.4 million), however, excluding

reinstatement premiums, premiums are down 0.4% year on year, as an improved rating environment has been offset by re-underwriting actions in risk and pro-rata and aggregate books. Importantly, net premiums written grew by 42.3% as we deployed more capital into an improving rating environment, which will build earnings power into 2022. Hiscox Re & ILS made a profit of \$98.5 million and achieved combined ratio of 68.0%; this is an excellent result. Hiscox Re & ILS business delivered \$91.1 million of underwriting result, as a strong non-catastrophe loss experience and favourable prior-year movements in our Japan and risk books more than offset the elevated net natural catastrophe losses of \$122.0 million net of reinstatement premiums in the period.

Since 2016, Hiscox Re & ILS has non-renewed \$378 million of non-profitable business, having fully exited casualty and healthcare and significantly reduced risk exposure. In property, we have reduced the aggregate and bottom layer exposures on North American catastrophe business, most notably in Florida, and our Japanese typhoon exposure is 23% less than it was three years ago. In cyber, ahead of the market, we exited some low attaching risks to reduce exposures to increasing ransomware attacks while our core stop loss product continued to benefit directly from the significant improvements in the underlying rate adequacy. In short, we have rebalanced the book to align to our expertise and create more resilience while also driving rate improvement and margin expansion.

Our ILS proposition has attracted new inflows, \$190 million in 2021 and a further \$217 million in January 2022. AUM stands at \$1.6 billion at 1 January

2022 (\$1.4 billion at 31 December 2021), supporting gross premiums written growth into 2022.

Matthew Wilken joined the business as our new Chief Underwriting Officer in January 2022. He joins from MS Amlin Underwriting Ltd, where he held the Head of Reinsurance role. Matthew spent his early career at Kiln Syndicate, Argo Re and Ariel Re. With his underwriting acumen and a strong market reputation, we are delighted to be further strengthening our underwriting and executive teams.

Dividend, capital and liquidity management

The Group remains strongly capitalised against both regulatory and rating agency requirements. The Hiscox Group Bermuda solvency capital requirement (BSCR) ratio is estimated at 31 December 2021 at 200%, a 13 percentage point improvement on the prior year. The 11 percentage point impact of the final stage of strengthening of the formula (an industry-wide basis strengthening implemented by our Group regulator, the Bermuda Monetary Authority) was more than offset by a combination of strong organic capital generation and 13 percentage points of benefit from proactive capital management through loss portfolio transfer (LPT) transactions executed in the period. On an S&P basis we remain well capitalised to maintain an A rating. S&P are in the process of updating their capital model, as a result of this Hiscox is expected to benefit from recognition of risk diversification benefit in our business model and conservative reserve margin.

During 2021 and into 2022, we have continued to proactively take action to limit profit volatility from the back-book, in particular where we have decided

Strategic focus

Total Group controlled income for 2021

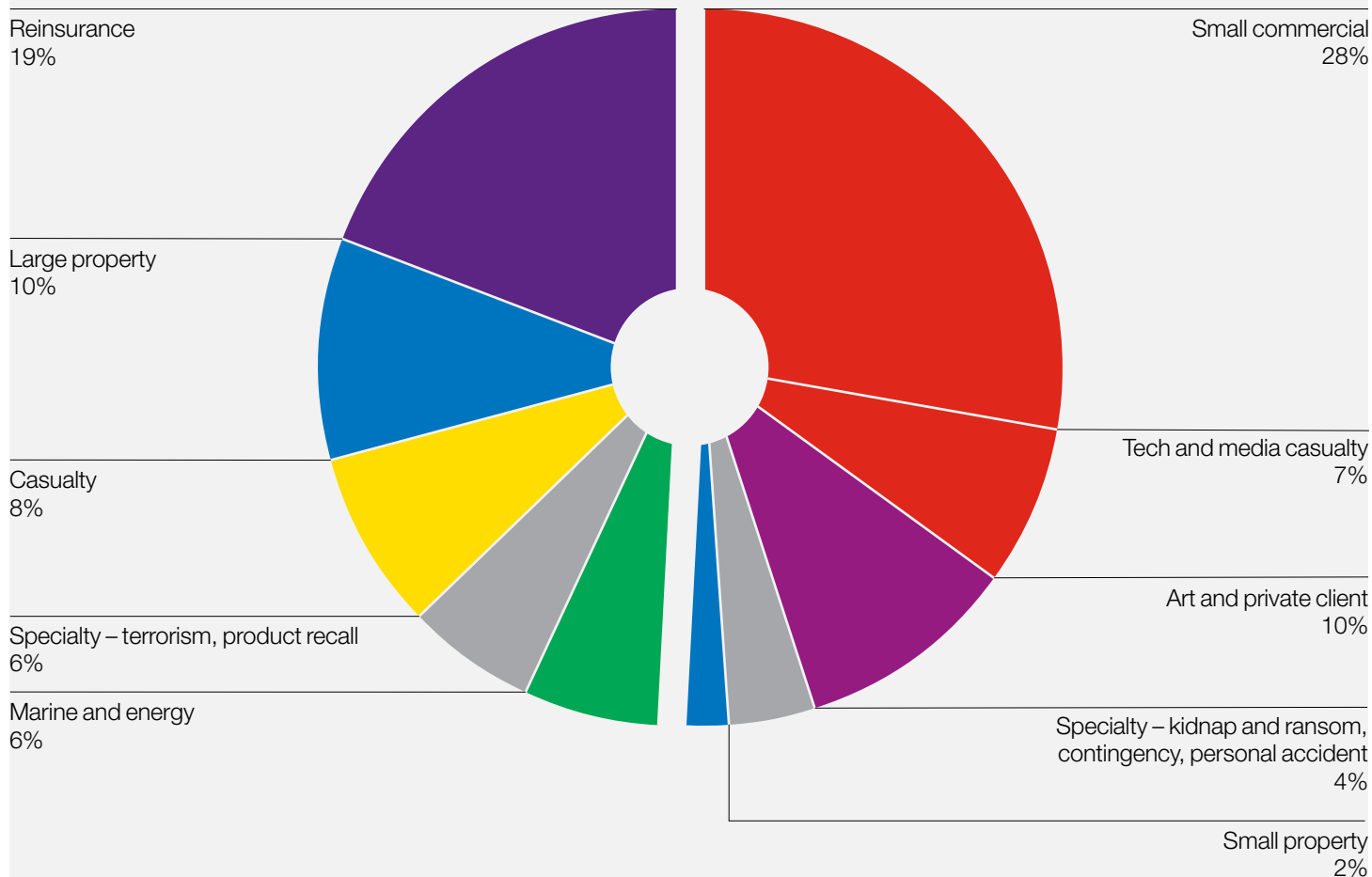
100% = \$4,795 million

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.

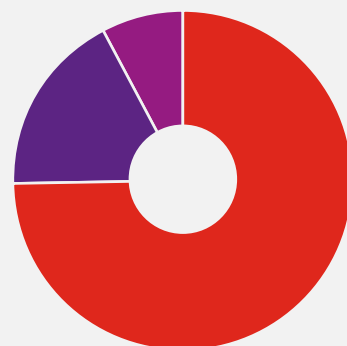


Portfolio – asset mix

Investment portfolio \$7,290 million as at 31 December 2021

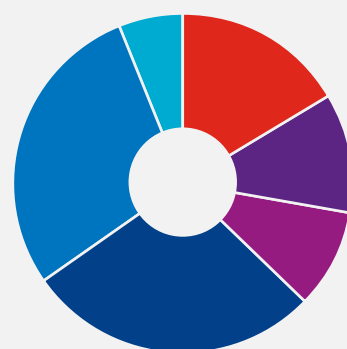
Asset allocation (%)

Debt and fixed income holdings	75.9
Cash and cash equivalents	17.8
Equity and investment funds	6.3



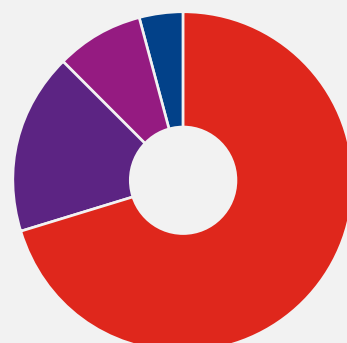
Debt and fixed income holdings credit quality (%)

Gvt	16.4
AAA	11.4
AA	9.6
A	28.0
BBB	28.7
BB and below	5.9



Debt and fixed income holdings currency split (%)

USD	70.4
GBP	17.3
EUR	8.4
CAD and other	3.9





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 23.0 cents per share.”

to exit the business. In the first half of 2021, the Group undertook two LPT transactions, covering legacy healthcare claims in Bermuda and the selected lines of Hiscox Syndicate 3624, including the majority of Hiscox USA's surplus lines broker business. The two transactions cover 15% of 2019 and prior years' gross reserves, and will remove potential reserve volatility from longer tail lines which we have mostly exited in the coming years, thus allowing management to focus on the opportunities presented by the good trading conditions we have ahead of us. This together with the substantial reserve margin above the actuarial best estimate demonstrates our resilient foundations.

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 23.0 cents per share. This brings our total dividend for the year to 34.5 cents per share. The record date for the dividend will be 6 May 2022 and the payment date will be 13 June 2022. The Board proposes to offer a Scrip alternative, subject to the terms and conditions of Hiscox's 2019 Scrip Dividend Scheme. The last date for receipt of Scrip elections will be 20 May 2022 and the reference price will be announced on 30 May 2022. Further details on the dividend election process and Scrip alternative can be found on the investor relations section of our corporate website, www.hiscoxgroup.com.

Investments

We manage our investment portfolio with two main objectives in mind:

providing sufficient liquidity to pay claims and providing capital to support the underwriting business, while generating strong risk-adjusted returns. Given the depressed yield on our short-dated bond portfolio at the start of the year, and the rising rate environment during 2021 driving mark to market losses, investment returns were subdued at \$51.2 million (2020: \$197.5 million) after investment expenses, a return of 0.7% (2020: 2.8%). Assets under management at 31 December 2021 were \$7.3 billion (December 2020: \$7.6 billion).

Despite global supply chain pressures and intermittent pandemic-driven lockdowns, the strong global economic recovery saw equity markets deliver strong returns over the year. While bond markets were initially calmed by reassurance from central banks that inflationary pressures were temporary, the latter part of 2021 saw sharper increases in bond yields as central banks started to scale back asset purchases and indicate that they would implement tighter interest rate policy going forwards.

Government bond yields increased over the period, however, they remain depressed relative to historical levels and credit spreads for high-quality bonds remain near their historical lows. The yield to maturity on the bond portfolio improved in 2021, but remained modest at 1.0% at end December 2021 (December 2020: 0.4%).

Central banks have started to tighten monetary policy since the year end, and markets are pricing in several rate rises through 2022 and government bond yields have shifted sharply higher at shorter maturities. The resulting

temporary mark to market losses on our short-dated bond portfolios will make a considerable dent in 2022 investment returns, but we are pleased that the interest rate environment has started to normalise, markedly improving reinvestment opportunities in the longer term.

Year to date, our bond portfolio yield has risen to 1.7%, up from 1.0% at end December 2021. The short-dated nature of our investment portfolio means we will be able to reinvest maturities at higher rates to capitalise on the higher yield environment during 2022, however, this will be partly offset by mark to market losses in the short term. The outlook for 2023 is now looking brighter with respect to investment income and we continue to look through ongoing volatility to steadily invest into diversifying positions where valuations present attractive long-term risk and capital-adjusted outcomes.

People

Hiscox could not have become the business it is today without the contribution of its dedicated, resourceful and talented people; our future success fully rests on our people. It is a key competitive advantage that we have and I am fully committed to nurturing and investing in our people. I am also pleased to welcome new world-class talent to the Group. In December, we announced Paul Cooper was appointed as Group Chief Financial Officer, subject to regulatory approval. Paul has over 25 years of financial services experience across both the retail and Lloyd's insurance markets and his broad commercial acumen as well as his audit, regulatory and capital markets experience will help us capture the many opportunities ahead.

In February 2022, Jon Dye was appointed to become the new UK Chief Executive Officer, effective September 2022, subject to regulatory approval. Jon has held a number of senior roles within the industry, most recently as CEO of Allianz UK for eight years. He also served as Chair of the ABI between 2019 and 2021, and as such has driven industry collaboration on issues including the industry's response to the pandemic, FCA fair pricing review and climate change. Jon is a recognised industry leader with solid CEO experience and I look forward to working with him as part of our Group Executive Team.

Hiscox has always had a differentiated culture and we are keen to preserve its unique nature, such as a sense of proprietary ownership, entrepreneurial spirit, empathy for each other, customers and partners. At the same time, we are entering a new stage of our journey, so our culture will evolve as we become a larger business. I am keen for our people to be clear about the role they play in the overall Group strategy and how they are contributing to our joint future success.

With this in mind I have created a single Group Executive Committee, with five business unit CEOs complemented by five functional leaders, including the new role of a Group Chief Operating Officer. Our new executive leadership team will ensure increased collaboration between business units and Group functions and will steer coordinated execution of the Group strategy.

Environmental, social and governance ESG matters at Hiscox; it is why we were a founding member of ClimateWise, a public supporter of the Task Force on Climate-related Financial Disclosures (TCFD) and a signatory to the 2015 Paris



Hiscox could not have become the business it is today without the contribution of its dedicated, resourceful and talented people; our future success fully rests on our people."

Agreement. We made good progress on ESG issues in 2021, but of course there is more still to do.

On the environmental side, we made new greenhouse gas (GHG) emission reduction commitments, using Science Based Targets initiative (SBTi) methodologies, that align with a 1.5°C net-zero world by 2050. These include reducing our Scope 1 and 2 emissions by 50% by 2030; reducing our operational Scope 3 emissions by 25% per FTE by 2030; and transitioning our investment portfolios to net zero by 2050. The aim is that more than 25% of our corporate bond portfolio by invested value will have net-zero/Paris-aligned targets by 2025, and more than 50% by 2030. Our new commitments also include engaging with our suppliers, brokers and reinsurers on our net-zero targets as well as their own, and

monitoring emerging standards around underwritten emissions so we can align with best practice as it emerges. We will share periodic updates on our progress towards accomplishing these ambitions, and remain operationally carbon neutral through offsetting, as we have been since 2014.

In addition, our ESG exclusions policy – which 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 Arctic National Wildlife Refuge region; oil sands; and controversial weapons – officially came into force on 1 January 2022. Our big-ticket risks are now categorised by ESG status and we have developed new underwriting dashboards that provide live views of our exposure to excluded sectors; steps that enabled us to start declining out-of-scope risks ahead of time. In investments, we have been embedding a range of ESG requirements in segregated investment manager mandates and have already eliminated all direct exposures outside of appetite. This, alongside the semi-annual ESG reviews we have established with our managers, has enabled our investment in sustainable and impact assets including green bonds to reach over \$250 million.

When it comes to social, I think of this in three parts: customers, colleagues and communities. We paid \$1.25 billion in claims during the year, but we also helped our customers to actively manage risk through tools such as our CyberClear Training Academy. For colleagues, we continue to focus on improving diversity at all levels. Our 15 employee network chapters – encompassing Latino and Pan-African communities, WeMind,

Pride, and parents and caregivers – play an important part in this, but so too does our diversity reporting. 2021 marked our fifth year of UK gender pay reporting and although our gender pay gap has been steadily reducing since 2017, it continues to be predominantly driven by more men than women holding more senior roles. I am pleased to see our current Board diversity reach 55% men and 45% women, and my newly formed Group Executive Committee comprises 40% men and 60% women, but equally I recognise we have more to do here. And finally, our communities, where the combination of Hiscox Gives (our fundraising and volunteering arm), the Hiscox Foundation (our charitable foundation) and our employee-led green teams continue to drive a range of socially responsible initiatives – from beach clean-ups in Bermuda to plastic fishing on the River Thames. In 2021, this work resulted in \$1.5 million donated to good causes and over 1,000 volunteering hours.

In governance, we boosted our existing commitments by becoming members of the Principles for Responsible Investment (PRI) – both as an asset owner and asset manager – and the Principles for Sustainable Insurance (PSI). We also strengthened our existing ESG oversight structure with the formation of our Sustainability Steering Committee (SSC), bringing new senior expertise to our activities. The SSC is responsible for executing our ESG strategy across our operations, driving actions and delivery at a Group level, tracking our sustainability performance over time, and identifying relevant risks and opportunities – with an initial focus on climate change. I am pleased to chair the SSC and personally contribute to our sustainability agenda.

Outlook

I am optimistic about the outlook for 2022. Cumulative rate increases over a number of years in our big-ticket businesses have created the opportunity to build balanced portfolios with improved margins and resilience and the profit outlook is positive. Our Retail business is very well placed to drive significant growth into large and underserved markets. With much of the course correction complete, I expect this to lead to strong headline growth, improving profitability and we remain on track to achieve the 90% to 95% combined ratio target in 2023.

While the recent extreme weather events are a stark reminder that we live in an unpredictable world, the re-underwriting actions we have undertaken mean our business portfolio is less volatile and more resilient; and we are strongly capitalised with sufficient financial flexibility to support our growth ambitions.

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



Aki Hussain
Group Chief Executive Officer
2 March 2022

Q&A:

with Robert Dietrich
Chief Executive Officer, Hiscox Europe

Euro vision

Hiscox Europe is transforming its core system through Project Leap and has developed a strong vision for the future.

In 1997, when Robert Dietrich joined Hiscox as an administration manager, he was the business's fifth employee in Germany. Sixteen years ago, after a stint as European Underwriting Director, he became Managing Director of Germany. In 2021, he was made Chief Executive Officer of Hiscox Europe, overseeing eight countries and more than 600 employees.

Q: In your 25 years with Hiscox, how dramatically has the European operation changed?

A: When we started in Germany nobody knew us. Nobody. They couldn't even pronounce Hiscox. There was an orange juice in Germany that had a similar name, so everybody here thought we made orange juice. Hiscox didn't have any brand; now we have a very good brand. Almost everything has changed. The only thing that hasn't changed is that start-up mentality, that feeling that you haven't achieved it yet, that you've just started the first

chapter of an exciting book and there's so much more to do. People are really motivated to be here. It's fun to build something. We always say: "Next year is going to be super exciting", and it's true every year. Next year is going to be super exciting, we're going to do something completely new and challenging. I have not been bored one single day at Hiscox, not one single day.

Q: How does it work, running a business across an entire continent?

A: We're taking care of eight countries, and we've got over 600 people. It can be complicated, having different nationalities, different sizes of operation, different evolution stages, but we believe that we're greater together. We exchange so many ideas – that's the fascinating part of being so international, that you can get the best ideas from all the different countries. Our vision is that we want to become the most recommended insurer in Europe. That's the common goal.



Q: Looking back at 2021, what are the achievements that stand out for you?

A: The thing that I'm most happy about is how we managed to respond to Covid-19. At the start of the crisis, we said: "We'll look after our people, we'll look after our clients, and we'll make sure we don't stop the big strategic initiatives". In Europe, I think we accomplished all three goals. The business results have been very good – we've grown and we're profitable – but the bigger accomplishment has been in the culture and the spirit, and how that's survived the pandemic.

Beyond that, the thing I'm most proud of is that in 2020, right at the beginning of lockdown, we started a technology project called Leap. There was a big question: can we manage a big project like that remotely, with people from Germany, the UK, Israel, Portugal, India, all working together to achieve something? The team did so well. We did it on time and within budget. This wasn't just a job, this was a mission. It's something we will benefit from for years to come.

Q: What is Project Leap seeking to achieve?

A: It's about rebuilding our core system. At an insurance company, the core system is the most complex thing to change – it underpins everything. For 23 years, we've worked with a system we created ourselves. I'm quite proud of what we built, but with it we wouldn't be able to achieve our vision. The new platform will make it possible for our business to really scale up, get better connectivity to the market, increase automation and set the foundations for gathering and using data. We started with Germany as a pilot, and now we're moving on to France. This is where this idea of 'greater together' comes in: no country in isolation could afford a system change like that, but combined we can do it.

Q: Are there any other changes happening in parallel?

A: On the front end, working with brokers, we're continuing to move into digitisation. That's also the case with direct-to-consumer, because buying behaviour is changing so quickly. If you're a 28-year-old consultant and you want to buy insurance on a Sunday evening, you don't want to go via a broker. New partnerships and new platforms are emerging all the time. It's not just brokers and end consumers, either. In France, for example, smaller clients often go via banks, so we need to partner with those banks. These models are changing, and we need to play a role in all of them.

Q: How do you see the human value being applied at Hiscox?

A: For me, it's not necessarily always the big things. It's lots of small things. It's about being a decent person. It's about saying please and thank you and well done, no matter what position you're in. It's about helping a colleague who needs a hand, supporting someone who feels a bit down, just being there when you're needed. It's how we treat clients if they have a claim. It's how we deal with a complaint. It's about trying to feel a bit of what other people are going through. That's what being human means.

Q: During the lockdowns of the past two years, what did you miss most about being around other people?

A: For me, the office is like a cultural shower. It's refreshing. Every person you meet, you have a chat, you have a laugh, you discuss something, you have a creative idea together. I think we did a pretty good job in trying to be connected, but just having an unscheduled chat and a laugh, a bit of camaraderie, I think that's the bit that I missed most.



Capital



We continue to manage our capital proactively, leading to a robust position which will enable us to seize the underwriting opportunities that lie ahead.”

Craig Martindale
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. 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 2021, available capital was \$2,599 million (2020: \$2,431 million), comprising net tangible asset value of \$2,226 million (2020: \$2,055 million) and subordinated debt of \$373 million (2020: \$376 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 \$941 million (2020: \$946 million), of which \$331 million was utilised as at 31 December 2021 (2020: \$524 million).

Our key rating agencies, A.M. Best, S&P and Fitch, calculate capital adequacy by measuring available capital, after making various balance sheet adjustments, and comparing it with required capital, which incorporates charges for catastrophe, premium, reserve, investment and credit risk. Our interpretation of

the results of each of these models indicates that we are comfortably able to maintain our current A ratings. In December 2021, S&P published details of significant proposed changes to the model used to assess our capital adequacy for consultation. We expect these changes to be introduced during 2022. We will be looking at any consequences for our capital position very closely and will factor this 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, and the Group’s capital strength and financial flexibility following this scenario means we would be well positioned to take advantage of any opportunities that might arise as a result.

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

The GSSA is based on the Group’s own internally-assessed capital requirements



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

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.

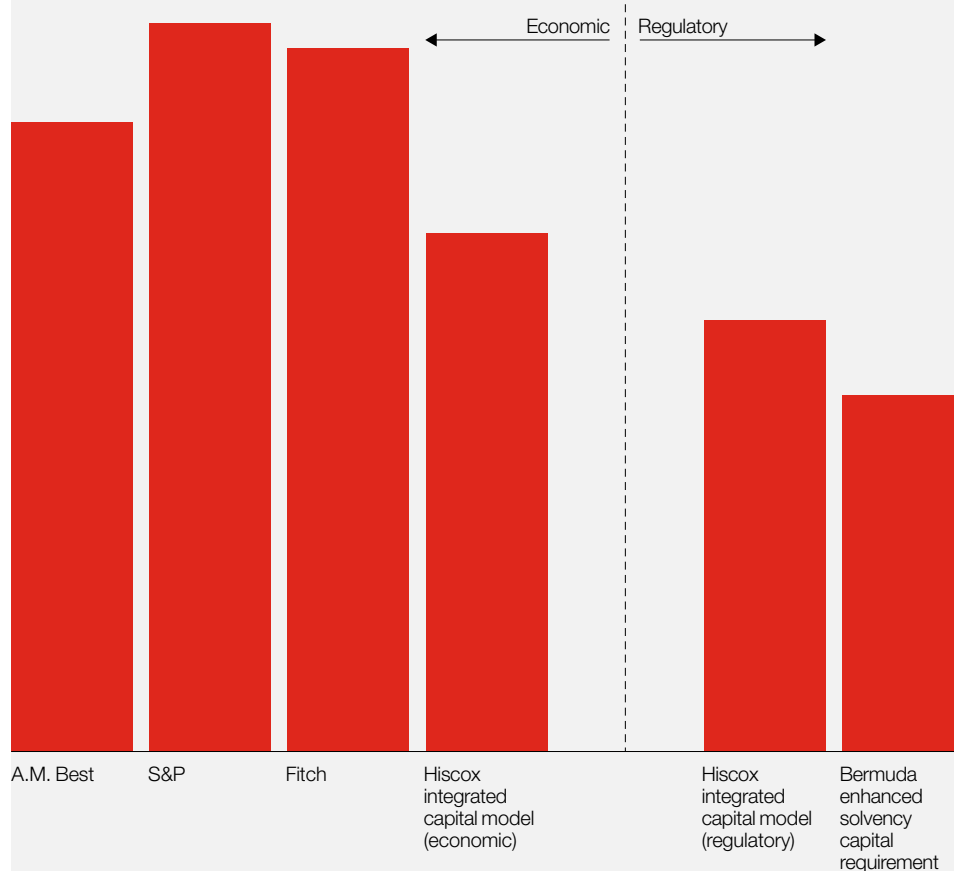
The Group's estimate for the year-end 2021 BSCR solvency coverage ratio is 200%, which includes the final stage of changes to the BSCR standard formula phased in by the BMA over a three-year period, which began in 2019. These changes since last year-end have been effectively offset by our proactive approach to capital management in the form of two loss portfolio transfer transactions. The first relates to legacy healthcare claims in Bermuda, while the second covers selected lines of Hiscox Syndicate 3624, including the majority of Hiscox USA's surplus lines broker business. Both transactions are designed to remove reserve volatility in the coming years, allowing us to focus on the opportunities presented by the good trading conditions we have ahead of us.

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

\$2.60 billion available capital

\$2.52 billion available capital (post-final dividend)



Rating agency assessments shown are internal Hiscox assessments of the agency capital requirements on the basis of projected year-end 2021. 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 continue to evolve with our business, enabling us to adapt our responses to key emerging and changing trends like climate and cyber.”

Hanna Kam
Group Chief Risk Officer

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

Risk strategy

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

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

Risk management framework

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

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

doing so remain within the parameters set by the Board.

The risk management framework is underpinned by a system of internal control, which provides a proportionate and consistent system for designing, implementing, operating and assessing how we manage our key risks. This framework is regularly reviewed and enhanced to reflect evolving practice on risk management and governance. During 2021, we continued to embed and strengthen our system of internal control.

Risk appetite

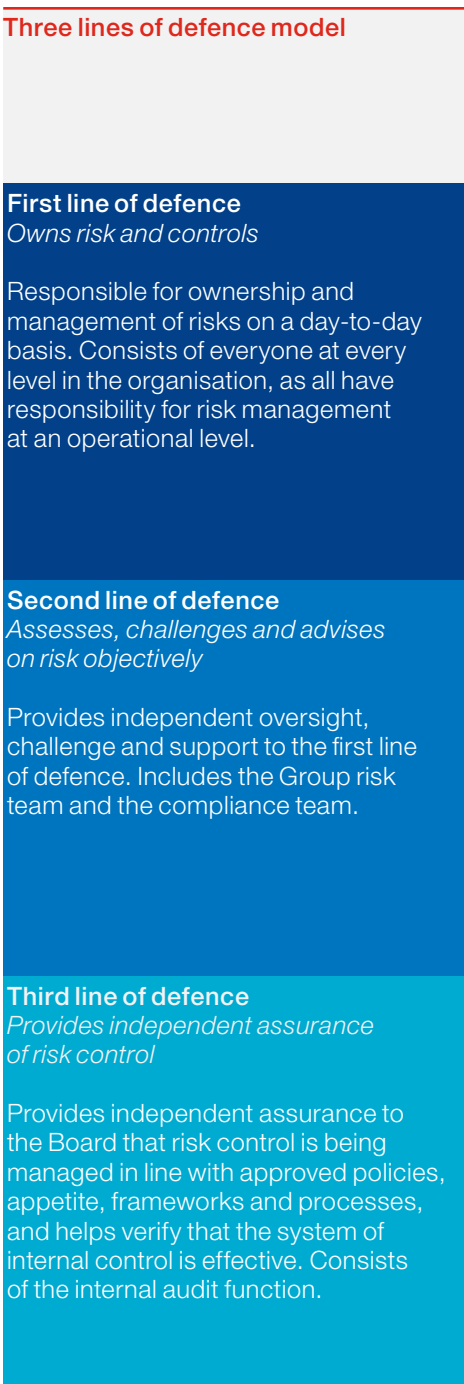
The risk appetite sets out the nature and degree of risk the Group is prepared to take to meet its strategic objectives and business plan. It forms the basis of our exposure management and is monitored throughout the year.

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

Risk appetites, which are set for each of our insurance carriers and for the Group as a whole, are reviewed annually, enabling us to respond to internal and external factors such as the growth or shrinkage of an area of the business, or changes in the underwriting cycle that may have an impact on capacity and rates. In 2021, we continued to enhance and refine our risk appetite statements across the Group.



Risk management across the business
The Group coordinates risk management roles and responsibilities across three lines of defence. These are set out in the model to the right. 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, sustainability, reserving, investments and credit, as well as emerging risks. The Group Risk and Capital Committee and the Group Underwriting Review Committee make wider decisions on risk.



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



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



Read more about our key risks.

The role of the Board in risk management and key developments during 2021

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. Stress tests and reverse stress tests (scenarios such as those shown in the chart opposite, which could potentially give rise to business failure as a result of 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 key risk management developments during 2021.

- A structural review of the risk appetite limits framework was undertaken, taking into consideration the changing nature of the Group's business mix. This included an enhancement of the risk limits calibration to reflect the interdependent relationship between underwriting risk (current

year volatility), reserve risk (prior years) and reinsurance strategy. Multiple workshops were held with Board members providing valuable feedback for the use of risk limits and risk modelling. For the Group, we formalised an aggregate risk measure for solvency monitoring at different return periods.

- Enhancements were made to our risk and control self-assessment (RCSA) which is an annual programme of work undertaken across the Group to assess the key risks and controls in our risk and control register (RCR). The RCSA ensures the business appropriately reflects the key risks it currently faces; appropriate key controls are captured against each of these risks and it enables the first line, as risk and control owners, to better focus attention on areas where additional oversight is needed to further uplift the control environment.
- A critical risk designation review was conducted during the year to ensure that those risks within the RCR that are identified as critical continued to reflect the most significant exposures to the business.
- Summary operational risk metrics dashboard reports, aligned to the RCR, were developed and presented to the Risk Committee to strengthen the visibility of existing operating metrics utilised across the Group, as well as to develop additional metrics where areas for enhancement were identified.

In light of these arrangements and the key developments made in 2021, the Directors are satisfied that a robust assessment of the emerging and

principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity, has been carried out during the year and that no material changes to the principal risks are required.

The role of the Group risk team

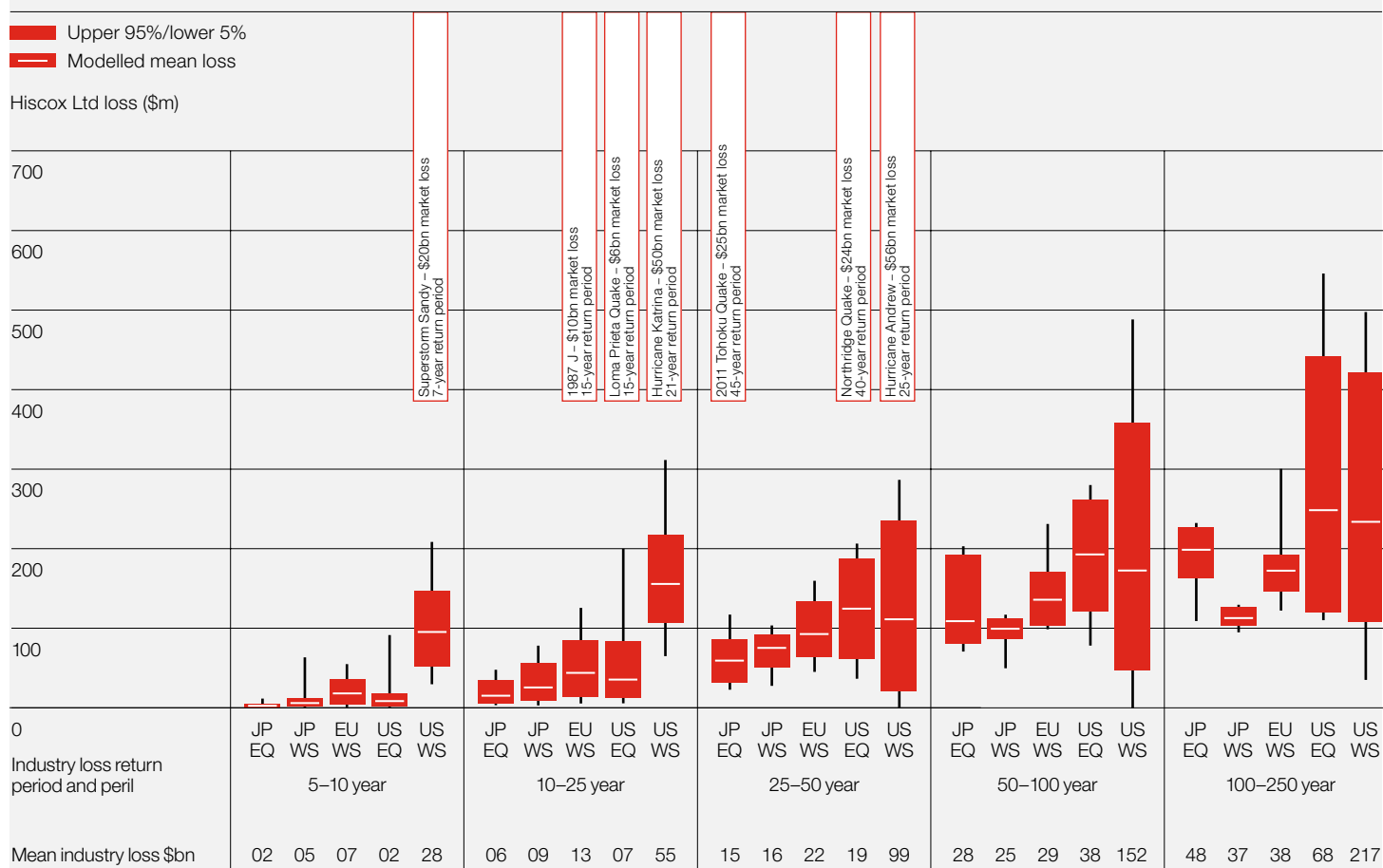
The Group risk team is responsible for designing and overseeing the implementation and continual improvement of the risk management framework. The team is led by the Group Chief Risk Officer who reports to the Group Chief Executive Officer, the Risk Committee of the Board and of the relevant subsidiary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

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

2021 has seen a continued focus on improving the efficiency of the risk management framework, mainly through the streamlining and automation of repeatable cycles. This drive for efficiency allows for an increase in risk deep-dives and for more support to be available to the portfolio of Group-wide change programmes, as well as ensuring appropriate support and challenge is provided to the first line of defence in assessing, understanding and responding to risks that continue to emerge out of Covid-19.

Property extreme loss scenarios

Boxplot and whisker diagram of modelled Hiscox Ltd net loss (\$m) January 2022



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

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

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

Stakeholder engagement



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 Head 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 2021, the Company conducted over 350 meetings and met with over 130 investors, representing approximately 75% 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 2021 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 15 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.



Engagement with our stakeholders is critical to our continued success, so we place real importance on considering and responding to our stakeholders' needs at all levels, including Board level."

Marc Wetherhill
Group General Counsel and
Company Secretary



Brokers

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

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. In 2021, this involved interviewing over 700 UK- and US-based brokers, 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 2021, this included cyber security trends to be aware of, managing malicious attacks, the future of event cancellation, rebuild costs and under-insurance, as well as climate change and the role of wind energy in the transitioning economy.



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 surveys, focus groups and other 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.

Contributing to product development

We have undertaken qualitative research in the UK as we look to develop products tailored to professions such as fitness professionals, digital marketing and graphic designers. Insights gained from professionals in these fields helps shape our insurance offering to their particular needs.

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 US segmentation study which explored attitudes and behaviours among small businesses with revenues of up to \$25 million is contributing to a future US marketing campaign.



Regulators

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

Regular dialogue

Our Chief Compliance Officer and central compliance team lead our relationships with regulators worldwide and maintain regular dialogue with them, with involvement from senior management and the Board when required.

Regulatory dialogue includes the annual supervisory college, hosted by the BMA as our Group supervisor, which gives an important annual opportunity for us to present a consistent message to our regulators on issues of common interest, and in 2021 was attended by six members of the Group's senior management team.

Regulatory change

We contribute to the regulatory change process, both directly and through active membership of trade associations, such as the Association of Bermuda Insurers and Reinsurers and the Association of British Insurers. 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 2021, this included participation in the Bank of England's Climate Biennial Exploratory Scenario (CBES) exercise.

Regulatory reporting

The Group and its subsidiaries met all material regulatory reporting obligations for 2021.

Environmental, social and governance (ESG)



Our ESG ambition is clear. We want to be there for the long term, for our customers, communities and our people, operating in a sustainable way for the future.”

James Millard
Chief Investment Officer
and ESG Executive Sponsor

2021 marked another year of progress in our ESG efforts across the Group, particularly on environmental issues, where climate volatility presents both risks and opportunities.

Sustainable underwriting

We have made important developments towards defining a sustainable underwriting approach for Hiscox over the last 12 months. This has included the implementation of our ESG exclusions policy, which is supported by an ESG dashboard to monitor exposures frequently and consistently (see page 47); becoming a Principles for Sustainable Insurance (PSI) signatory; and contributing to key industry taskforces via the Sustainable Markets Initiative and ClimateWise. We will go further in 2022 as we look to embed a sustainable underwriting strategy across each of our business areas.

Responsible investment

We have transformed our approach to responsible investment over the last 12 months. This has included becoming a Principles for Responsible Investment (PRI) signatory, both as an asset owner and an asset manager through our ILS business; and embedding ESG requirements (including ESG exclusions) in all segregated investment manager mandates – such that there are no longer any direct exposures in breach of the

ESG exclusions policy. With semi-annual ESG reviews of all segregated investment managers now established, assets under management (AUM) in sustainable and impact assets including ESG-related bonds at over \$250 million, and senior investment team members undertaking ESG specific investment training, we have good progress to build on in 2022.

Greenhouse gas (GHG) reduction targets

Setting new GHG targets for the Group during the year required extensive stakeholder engagement, across functions including HR, procurement and property services, an awareness of evolving expectations around ‘net zero’, and alignment to the Science Based Targets initiative (SBTi) which is increasingly considered the global standard (see page 49). We will build on this work in 2022 by developing and publishing a supporting action plan that outlines the steps we will take towards achieving these targets.

ESG governance structure and resource

We strengthened our existing ESG governance structure during the year with the formation of a new Sustainability Steering Committee. This has increased senior-level oversight and accountability for ESG matters, specifically climate, and brought new expertise to our activities (see page 47).

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.



2021 activity highlights

- New Board-approved, SBTi-aligned greenhouse gas (GHG) reduction targets set for the Group (see page 49).
- ESG exclusions policy established and new tracking introduced to classify risks by ESG status.
- New Sustainability Steering Committee improving senior oversight and accountability.
- Signing up to the PRI and the PSI.
- Working with our industry to define sustainable underwriting through ClimateWise and the Sustainable Markets Initiative.

New commitments and partnerships

Principles for Responsible Investment



Principles for Sustainable Insurance



HRH The Prince of Wales' Sustainable Markets Initiative



2022 focus areas

- Embed our new Group-wide net-zero aligned GHG reduction targets, including a supporting action plan.
- Further review and refine our strategy for carbon emissions offsetting, as we look to remain operationally carbon neutral.
- Enhance our sustainable underwriting strategy for the Group.
- Integrate ESG considerations more formally within our supplier management activities, boosting engagement with our suppliers, brokers and reinsurers on their plans to adopt Paris-aligned climate targets.
- Continue to review and refine our existing physical risks and casualty exposure management processes to ensure climate change remains appropriately reflected, particularly when it comes to stress testing and scenario analysis.
- Further embed climate change assessment in the business planning process to ensure the continued consideration of potential climate change impact on our underwriting, reinsurance and investments strategies.
- Continued industry collaboration to identify areas where we can help our insureds and reinsurers progress towards decarbonisation, and to contribute to the development of common methodologies in areas such as underwritten emissions.
- Embed ESG-specific objectives for each Group Executive Committee member to ensure they are empowered to play an active role in our ESG agenda.
- Prepare for PRI and PSI reporting.

ESG governance structure

How we manage and monitor ESG issues to ensure appropriate accountability and oversight.



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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.
- Minimum 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.
- Meets quarterly and embeds sustainability risks and opportunities, with an initial focus on climate.
- 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.



Environmental



Understanding climate science is really the starting point for lots of our environmental activities. We have internal expertise, including climate scientists, who inform our underwriting approach, but we also have plenty of other passionate people thinking about our climate impact in other ways.”

Robert Caton
Director of Underwriting Risk
and Reinsurance

We carefully manage our environmental impact and work with our customers, suppliers and business partners to respond to the changing climate. This includes looking at our operations and finding ways to limit our consumption of materials such as energy and water, and reduce 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 embedded

Last year, we set 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 system changes to allow us to categorise big-ticket risks by ESG status;
- created new underwriting dashboards that provide live views of our exposure to excluded sectors;
- started to decline underwriting risks that fall outside of appetite;
- shared the policy with our fund managers, to ensure it is considered in relation to pooled funds;
- eliminated our investment exposure within all directly held bonds that fall outside of appetite.

We will develop on this work in 2022 and provide periodic updates on our progress.



Hiscox has set new targets, using SBTi methodologies, that align with a 1.5°C net-zero world by 2050.

Growing appetite for sustainable insurance products

While we carefully manage the underwriting risks associated with climate change, we also recognise the new opportunities that exist to support customers as the risks they face evolve. Our US flood product, FloodPlus, is one example of this; providing broader, more attractive flood cover than the government-backed alternative to both homeowners and businesses who face a growing risk of flood. Demand for FloodPlus is such that we now serve over 70,000 customers across 49 states and we have ambitious plans to build on this in 2022. For more information, see page 92.

Industry collaboration through the Sustainable Markets Initiative (SMI)

During 2021, we were heavily involved in HRH The Prince of Wales’ Sustainable Markets Initiative. The SMI is designed to accelerate the transition to a more sustainable future, and we have contributed to a number of its big-ticket and retail-focused workstreams. The first step was to promote the array of green products and services that (re)insurers are already providing, so our early work culminated in a public, industry-wide showcase to demonstrate that our industry is already thinking about, and responding to, the transitioning economy. The showcase featured Hiscox contributions from across our flood, nuclear and motor products, as well as how we support decommissioning projects. These are areas we will build on as we continue to focus on climate-conscious products and services. An overview of the showcase can be found at: https://a.storyblok.com/f/109506/x/c0c3181f7e/smi-itf_products-and-services-showcase.pdf.



Read more about how we plan to achieve our new GHG targets.

New Board-approved, SBTi-aligned GHG reduction targets set for the Group

Getting to net zero is a shared challenge, and we need to play our part in achieving this global goal. As a Group, Hiscox has had stretching GHG emission reduction targets for a number of years but this year we set new targets, using SBTi methodologies, that align with a 1.5°C net-zero world by 2050.

As a result, we commit to:

- reducing our Scope 1 and 2 emissions by 50% by 2030, against a 2020 adjusted baseline*;
- reducing our operational Scope 3 emissions by 25% per FTE by 2030, against a 2020 adjusted baseline*;
- transitioning 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;
- engaging with our suppliers, brokers and reinsurers on our net-zero targets and on their plans to adopt Paris-aligned climate targets;
- monitoring emerging standards around underwritten emissions and collaborate across our industry on their development, aligning with best practice in this area as it emerges.

We continue to focus on reducing the emissions we have control over, and to work closely with our partners where that control is shared. Where common standards and methodologies do not yet exist – for example, in measuring and assessing supply chain impacts, and underwritten emissions – we want to help shape the solution.

We will share more information on how we plan to achieve these targets in 2022, along with periodic updates on our progress towards achieving them.

We will also continue to offset the emissions we generate via accredited offset schemes, to ensure we remain operationally carbon neutral as we have been since 2014.

*The 2020 baseline has been adjusted for Covid-19 to ensure it reflects a more normal year with regards to office usage, business travel, etc.

GHG emissions*

Scope	2021 (tCO ₂ e)	2020 (tCO ₂ e)	Year-on-year change
Scope 1	678	615	10%
Scope 2 (market-based)	866	1,111	-22%
Total Scope 1 and 2	1,544	1,726	-11%
Scope 3 (operational)	17,116	27,461	-38%
Total operational footprint	18,660	29,187	-36%
Scope 3 (non-operational)	8,458	7,046	20%
Investments	125,156	135,275	-7%

Total GHG emissions inventory

We continue to focus on managing and minimising our carbon footprint as a Group, and during 2021, our total operational footprint decreased by 36%.

We experienced a year-on-year increase in natural gas usage, driven by staff returning to our offices post-pandemic and better quality data from a number of sites. When it comes to electricity usage, we have benefitted from continued adoption of renewable energy sources.

Business travel emissions, including travel in company-owned vehicles, as well as staff travelling in their own vehicles, has seen a significant drop due to the fact that 2021 was the first full year of post-pandemic travel patterns. We expect to see a rebound in travel emissions as work patterns 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.

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. Note some emissions totals may not tally due to rounding.

A copy of our SECR GHG emissions table can be found on page 57.

[†]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 disseminated 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.



Social



I'm proud of how we support our customers, our communities and each other. It's something I see as a business unit CEO and as Executive Sponsor of Diversity and Inclusion, and it's something I feel as a Hiscox employee every day."

Kate Markham
Chief Executive Officer,
Hiscox London Market

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.

In 2021 this included:

- new multi-year charity partnerships. The Hiscox Foundation, which we have had since 1987, continues to support a raft of good causes and in 2021 formed new partnerships with social mobility programmes including Social Ark and Dress for Success, and environmental champions such as the London Wildlife Trust;
- a continued focus on improving our gender pay gap. 2021 marked our fifth year of UK gender pay reporting and showed that on a mean basis this gap has been steadily reducing since 2017 to now reach 19.1%. Diversity and inclusion action plans, gender-focused KPIs, tailored training and development, networking and peer support, and the targeting of diverse talent pools are all making a difference here. More information on this can be found in our 2021 gender pay report: hiscoxgroup.com/gender-pay-report-2021;
- conducting our annual employee engagement survey, which was completed by 85% of employees, with 90% saying they believe in our corporate values and 73% saying they are proud to work for Hiscox. These results, and the plans developed to further improve employee engagement in the year ahead, were shared and discussed at both the Group level and subsidiary boards.

Social accreditations

Insuring Women's Futures



Race at Work Charter



UK Living Wage employer



Gender diversity at 31 December 2021

	Male	Female
Board	55%	45%
Group Executive Committee	40%	60%
Direct reports to the Group Executive Committee	52%	48%
All employees	50%	50%

Ethnic diversity at 31 December 2021

	Members with ethnic minority background
Board	9%
Group Executive Committee	20%



Supporting our customers

\$1.25 billion paid out in claims worldwide in 2021.

20+ vulnerable customer champions to support those requiring additional support when accessing our products and services.

Tools to manage the risks they face – from our CyberClear Training Academy to our cyber exposure calculator.



Supporting our communities

\$1.5 million donated to good causes in 2021.

Over 1,000 hours spent volunteering by our teams.

Our three strategic pillars for charitable giving

Social mobility and entrepreneurship

Protecting and preserving the environment

Causes our people are passionate about



Supporting our colleagues

15 employee network chapters – encompassing Latino and Pan-African communities, WeMind, Pride, Women, Parents and Caregivers and Generations.

Over 43,500 hours spent on training and talent development.

60+ mental health first aiders.



Governance



Our governance structures and processes are taken seriously at all levels. We evolve our governance practices in line with our strategy and business model and, as you would expect, the relevant laws and regulations where we operate.”

Marc Wetherhill
Group General Counsel and
Company Secretary

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.

In 2021, this meant:

- updating our Board diversity policy to reflect more clearly the underlying ethos of the Company, the ongoing delivery of a diverse Board, and to formalise the Committee’s oversight of the Group’s wider D&I programme (see pages 84 to 87);
- the continuation of our employee engagement network which ensures workforce views are considered in Board decision-making;
- eleven modules of mandatory training for all employees, on issues including information security, financial crime, and data privacy;
- establishing a new Sustainability Steering Committee to boost senior-level oversight and accountability of ESG matters and, in particular, climate change;
- boosting our existing ESG disclosures by signing up to the Principles for Responsible Investment (PRI) and the Principles for Sustainable Insurance (PSI).

Active climate risk management

During 2021, we tested the potential impact to our assets and liabilities from physical and transition risks as a result of climate change on some of our big-ticket portfolios across a 30-year horizon. This exercise involved cross-function teams including underwriting, investments, exposure modelling, strategy and risk, and resulted in the identification of a number of new focus areas for the Group in 2022 (see page 46). These actions will be driven at a functional and/or business unit level, with progress monitored by the Sustainability Steering Committee, in accordance with the ESG governance structures we have embedded.

Climate training for Directors

In 2021, we completed an externally facilitated climate training session to boost existing understanding and awareness of climate-related matters. This training was available to our Board Directors at both Group and subsidiary level, and was designed to establish a new baseline of climate knowledge post-COP26; brief Board members on the latest climate-related developments they should be aware of; and introduce the concept of a climate-competent board. We will look to build on this work further in 2022.



Read more about Board activities and matters approved by the Board in 2021.



Read more about our D&I policies, including our updated Hiscox Ltd Board D&I policy.

Latest ESG disclosure scores

2021: B- grade
2020: C grade



2021: 72%
2020: 66%



2021: 40/100
2020: 35/100



2021: 3.3/5
2020: 4.1/5



2021: A grade
2020: A grade



2021: 27.0
2020: 25.6



Five years of progress – key ESG milestones

2021

- Board-approved ESG exclusions policy published.
- Sustainability Steering Committee established.
- Board-approved, SBTi-aligned, greenhouse gas targets for the Group.
- Became PRI and PSI signatories.

2020

- Board-approved responsible investment policy introduced.
- Senior Management Functions (SMFs) with responsibility for climate appointed within our UK subsidiaries.

2019

- Hiscox ESG framework published, showcasing the Group's ESG strategy.
- Became a public TCFD supporter.
- Boosted existing disclosures with Dow Jones Sustainability Index.

2018

- ESG Executive Sponsor appointed to spearhead ESG activities Group-wide.
- ESG working group established to drive action at an operational level.

2017

- Hiscox-led industry 'dry run' event to test market resilience hiscoxgroup.com/london-market-looks-ahead.



Task Force on Climate-related Financial Disclosures (TCFD)

Reporting against the Financial Stability Board's Task Force on Climate-related Financial Disclosures will become mandatory in the UK from 2025, and the Financial Conduct Authority (FCA) requires TCFD disclosure for UK premium-listed firms on a 'comply or explain' basis – effective from accounting periods beginning on or after 1 January 2021.

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: governance, risk management, operations, underwriting, investments, marketing and so on. 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/2021climatereport.

Governance

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 across the Group. This spans from an operational level up to the newly established Sustainability Steering Committee, the Risk Committee of the Board, and the Board itself.

Within this structure, there are clear roles and responsibilities. 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).

In 2021, we strengthened our existing Group-wide governance structures around climate with a new Sustainability Steering Committee, which has increased senior-level oversight and accountability. The Committee is chaired by the Group Chief Executive Officer and members include the Group Chief Underwriting Officer, Chief Risk Officer, Chief Investment Officer, Chief Executive Officer or Chief Underwriting Officer business unit representatives, Chief HR Officer, Group General Counsel, and Head of Investor Relations.

An overview of our governance structure for climate-related matters is detailed on pages 46 to 47. This includes the frequency of climate-related meetings at each level, along with each group's particular role in monitoring, managing, reporting and escalating climate-related matters. 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.

Within this structure 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 2021, this included an externally facilitated climate training session, available to our Board Directors at both Group and subsidiary level, to establish a new baseline of climate knowledge post-COP26; brief Board members on the latest climate-related developments they should be aware of; and introduce the concept of a climate-competent board.

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, which sets out our aim to reduce steadily and eliminate by 2030 our insurance, reinsurance and investment in thermal coal-fired power plants and thermal coal mines, Arctic energy exploration projects (beginning with the ANWR region), oil sands and controversial weapons. 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 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 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 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



See an overview of our modelling of extreme natural catastrophe loss scenarios.



See an overview of our governance structure for climate-related matters.

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 property services teams, its effective implementation relies on Group-wide adherence to the environmental principles we wish to live by.

- The Hiscox Group ethical guide for suppliers, which outlines how our corporate values and commitments to doing business in a socially responsible way extends to our relationships with suppliers. It covers our supplier selection process; fairness and recognition; 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, the environment and anti-bribery and corruption. It is owned by our Group procurement team, shared with suppliers during the tender process and suppliers are reminded of it periodically.

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 page 41). Examples of the outputs of this work, such as the property extreme loss scenarios detailed on page 41, show the potential financial impact to the Group of events including Japanese earthquake, Japanese windstorm, European windstorm, US earthquake and US windstorm.

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 peer comparison: CDP, ClimateWise, ISS, MSCI and Sustainalytics. An overview of our 2021 performance can be found on page 53.

Strategy

Climate change is considered to be an emerging 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. 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 litigation risk, where one party may seek to recover climate-change-related losses from another who they believe may have been responsible.

The governance and risk management structures we have in place ensure a coordinated approach to climate across the Group. They are supported by investments in technology – to ensure the right modelling and data are available to support our pricing and exposure – and in-house expertise – to combine off-the-shelf climate views with our own claims expertise and insight.

We consider the potential impact from climate-related issues over short-, medium- and long-term time horizons.

Near-term climate risks and opportunities (0-5 years)

- Higher claims are likely to result from more frequent and more intense natural catastrophes, such as floods and storms, due to climate change. 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 41.
- 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 greenhouse gas (GHG) emission reduction targets. For more information, see page 48.
- In terms of opportunities, 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 just some examples of lines of business



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



Hear more from our catastrophe modelling and research lead.

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.

A copy of our total GHG emissions inventory can be found on page 49.

where we could see increased opportunity over time, and in some cases we are already benefitting from changing customer trends. An example of this is 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. More information on our approach to US flood can be found on page 92.

Medium- to long-term climate risks and opportunities (5+ years)

- 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 is also the longer-term 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.
- 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.

As climate risks and opportunities evolve, so too does our strategy. We are working to improve our assessment and disclosures regarding the resilience of the organisation's strategy, taking into consideration different climate-related scenarios. We are leveraging work done to date in developing scenarios and participating in wider industry initiatives such as the Bank of England's Climate Biennial Exploratory Scenario (CBES) exercise for Hiscox Syndicate 33. The objective of the CBES industry exercise was to test the resilience of current business models within the largest UK banks, insurers and the financial system to the physical and transition risks from climate change. The CBES exercise was designed to progress climate thinking across the industry and establish an initial aggregate view of the risk exposures that the market may be facing over the next 30 years, the resilience of the financial system as a whole to these risks, and the adjustments and management actions that may be required. Through our participation in this exercise, we have gained new insights in relation to stress testing in a 2°C or lower scenario, which we will use to further develop our thinking in this area and boost our climate risk preparedness.

These insights will contribute to our future plans to assess our resilience taking into consideration different climate-related scenarios, including a 2°C or lower scenario. In order to meet future disclosures in this area, we intend 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 work will be a focus for 2022 and an update on our progress against it will be provided in our 2022 Annual Report.

Risk management

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.

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. 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,

Streamlined Energy and Carbon Reporting (SECR) GHG emissions

Activity	2021 energy (kWh)	2021 emissions (tCO ₂ e)	2020 energy (kWh)	2020 emissions (tCO ₂ e)	% change emissions (tCO ₂ e)
Scope 1 total	—	678	—	615	10%
Natural gas	2,342,644	441	1,710,200	315	40%
Company cars	377,056	87	560,441	151	-42%
Refrigerants		150		149	1%
Scope 2 (market-based) total		866		1,111	-22%
Electricity (location-based)	5,603,303	1,484	5,176,116	1,565	-5%
Electricity (market-based)	5,603,303	847	5,176,116	1,090	-22%
District heating	108,999	19	119,942	21	-10%
Scope 3 total		15		231	-93%
Personal vehicles	66,085	15	899,189	231	-93%
Total (market-based)	8,498,087	1,559	8,465,888	1,957	-20%

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.

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 and from independent risk experts for its understanding of the risks facing both our business and the wider industry.

This includes:

- **underwriting** – exposure radar in casualty exposure management group (EMG);
- **enterprise view** – risk team emerging risk;
- **compliance** – regulatory horizon scanning;
- **indemnity** – claims and actuarial reserving;
- **market** – strategic and business planning.

We also review natural catastrophe risk at least quarterly, through our Natural Catastrophe Exposure Management Group (NCEMG), which 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. 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 floodhazard maps.

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 GHG emission reduction targets. In 2021, we set new Board-approved targets to 2030 which have been 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 new targets commit us to:

- 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 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.

*Operational Scope 3 emissions predominantly consist of business travel (air, rail and car travel).

Interim targets and actions

We recognise that achieving these targets will take collective, consistent effort. While we will further define our supporting action plan during 2022, there are areas where we already have a glide path, or where work is already underway, as follows.

- In addressing our Scope 1 and 2 targets, we are already engaging with our facilities managers across the Group to continue to transition our offices to renewable electricity contracts. 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. We are also reassessing our existing use of company cars, which is currently limited to a small fleet in some of our European operations. We are already making progress here, having retired our fleet of company cars in Germany during 2021, and in those areas where it is not possible to eliminate the fleet entirely, we intend to transition to electric vehicles over time.

- On operational Scope 3, which is dominated by business travel, we are currently focused on improving the consistency of travel data across the Group to enhance our understanding of both volume and class of travel, to ensure our action plan is appropriately targeted.
- On Scope 3 more broadly, where emissions are dominated by our investments, the Board has agreed 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 and that we will target an additional 25% by AUM coverage every five years as we aim to be on a linear path to 100% portfolio coverage by 2040.

Progress against these targets will be driven by our ESG working group and overseen by our Sustainability Steering Committee, with at least annual updates to the Board.

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 2021 carbon emissions can be found on page 49.

Other metrics and targets we consider include:

- 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 53) 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 CDP climate questionnaire 2021
hiscoxgroup.com/cpddisclosure2021.



Read more about our approach to climate change in our 2021 climate report, available online at
hiscoxgroup.com/2021climatereport.

Disclosures have been made against the TCFD recommendations. 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.	2021 climate report* pages 9, 10 and 11. CDP climate questionnaire 2021.	
Describe management's role in assessing and managing climate-related risks and opportunities.	Disclosed.	2021 climate report* pages 14 and 15. CDP climate questionnaire 2021.	
Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term.	Disclosed.	2021 climate report* pages 5 and 22. CDP climate questionnaire 2021.	
Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning.	Disclosed.	CDP climate questionnaire 2021.	
Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	Plan to disclose in the next two years.	2021 climate report* page 12. More information on how we intend to meet this disclosure requirement, and steps already being taken towards it, are outlined on page 56.	
Describe the organisation's processes for identifying and assessing climate-related risks.	Disclosed.	2021 climate report* pages 9, 11, 27-29. CDP climate questionnaire 2021.	
Describe the organisation's processes for managing climate-related risks.	Disclosed.	2021 climate report* pages 14-15. CDP climate questionnaire 2021.	
Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.	Disclosed.	2021 climate report* page 9. CDP climate questionnaire 2021.	
Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.	Disclosed.	2021 climate report* pages 39-40. CDP climate questionnaire 2021. See Hiscox Group website.	
Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 GHG emissions and the related risks.	Disclosed.	2021 climate report* pages 39-40. CDP climate questionnaire 2021. See Hiscox Group website.	
Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.	Disclosed.	2021 climate report* pages 39-40. CDP climate questionnaire 2021.	

*Our 2021 climate report was published in August 2021 and covers our climate-related activities between July 2020 and July 2021. Where we reference information from that report, that information remains correct at 2 March 2022.

Q&A:

with Kathleen Reardon
Chief Executive Officer, Hiscox Re & ILS

Re birth

After a difficult period in a soft market, Hiscox Re & ILS has new leadership and a new mission: getting back to greatness.

Kathleen Reardon was appointed Chief Executive Officer of Hiscox Re & ILS in January 2021, after a highly successful six-year tenure as Chief Executive Officer of Hamilton Re. She is a former chair of the Reinsurance Association of America, and co-founder of the Women in Reinsurance organisation.

Q: What brought you to Hiscox Re & ILS?

A: It's been a 20-year attraction. The underwriting acumen, the technical expertise: that's always been appealing to me. So too is the leadership. At events and conferences, there was always something interesting happening with Hiscox, always a crowd gathering. Bronek would be out there, saying things that needed to be said: climate, rate change, attachment point. We were early starters of ILS, early starters of our quota share strategy. I like that punchiness, that audacity. When the role became available, I knew I'd be working for a leadership

team with conviction and compassion. These are people who truly want Hiscox to succeed. They are 'all in' and truly invested in the business.

Q: What were your first impressions when you arrived?

A: Because it wasn't an unknown entity to me, I was able to hit the ground running. What was nice when I looked at the stats, was that about a third of our underwriters have been with Hiscox for more than 18 years and a third have arrived in the past two years. I like that balance of 'been there, done that, have the experience to show for it' versus 'I'm coming with a different perspective'. What also didn't disappoint is that Hiscox Re & ILS really is an analytical shop. Underwriters are more technical than most and that makes a real difference.

Q: What do you see as your task here?

A: We have a really strong heritage, especially on the

big-ticket side of our business, and now that the market is turning, I want Hiscox Re & ILS to get back to the type of greatness which I believe it is known for. That's an awesome challenge, and I'm proud to say we're starting with a solid foundation.

We refreshed our strategy for Hiscox Re in 2021, which included an element of 'getting to yes'. We can't stay out on the sidelines all the time; we have to come in and be decisive. We were retreating, rightfully so, in a soft market, but this is an improving marketplace, so now we need to lean in to the sales element of what we do. We need to be going in, saying: 'how can I solve your problems?'. And for that, we need to dial up the inquisitiveness and create a more holistic view of the client. You might still say no a lot, but not without coming to the table with other solutions. It's just a shift. On the underwriting side specifically, it's a ramping up of something that's already there; it's just brushing off the cobwebs, given the market conditions.

Q: Is there a need to shift perceptions of Hiscox Re among brokers and clients?

A: We ran a broker survey early last year and we had some good, pure, heartfelt feedback. I think there's a general acceptance that we were retreating, but they really do want Hiscox to be great. They want us back with a louder voice and in a lead position. So, what can we do for people to wholeheartedly say: 'they're back'? We're enhancing client service, which means ensuring quotes remain relevant and timely, sharing climate change and inflation views, and continuing to pay claims swiftly. It also means staying focused on our core areas of expertise and using smart underwriting and analytics in new areas, as well as optimised capital management, and of course

having the client at the core of everything we do. With that, we'll be back to greatness in no time.

Q: What are your main priorities for 2022?

A: Our strategic priorities will be to continue to build a better portfolio, mature our model, engage our people, and nail the business plan. This year, we're going to have fewer big projects happening on technology. It's all going to be more bite-sized, and we're going to balance that with maturing our model. So, what does that mean? We need to define our roles more clearly, so it's easier for people to take ownership and be accountable. We also need to build out our knowledge hub as a single source of processes, research and insight. There's an awesome entrepreneurial culture at Hiscox, which has served us well for many years, but as we go from being a 'big-small company' to a 'small-big company' we need to make sure our processes evolve with us. It also means assessing those processes for complexity. For example, in our ILS offering, all of the work in the value chain, from submission to release of collateral, are we actually doing it in an efficient way?

Q: How do you see the human value being applied at Hiscox?

A: It's that sense that every voice is heard. It's making sure that you acknowledge different personalities and perspectives. Some people are forthright with their ideas, some people are more conservative. Over the past year, I met with every team and I made sure everybody at the table said something. It's about increasing the confidence of people to share an opinion, to have a say. I think it's important to have that open door and I'm proud to see that is a philosophy that runs throughout Hiscox.



Board of Directors



Non Executive Chairman

Robert Childs (Aged 70)
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 49)
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

Joanne Musselle (Aged 51)
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 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.

External board appointments
Realty Insurances Ltd.



Senior Independent Director

Colin Keogh (Aged 68)
Appointed to the Board: November 2015

Relevant skills, experience and contribution

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

Colin has spent his career in financial services, principally at Close Brothers Group plc where he worked for 24 years and served as CEO for seven years until 2009. Colin is also Chair of the Remuneration Committee and of the Hiscox Insurance Company Limited Board.

External board appointments
Ninety One Plc; Ninety One Ltd ; Premium Credit Limited.



Independent Non Executive Director

Donna DeMaio (Aged 63)
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 Global Chief Operating Officer, General Insurance 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 will also serve as Chair of the Audit Committee following Caroline Foulger's retirement at the 2022 Annual General Meeting.

External board appointments
Azure.



Independent Non Executive Director

Caroline Foulger (Aged 61)
Appointed to the Board: January 2013

Relevant skills, experience and contribution

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

Caroline is a resident of Bermuda and led PwC's insurance and reinsurance practice in Bermuda until her retirement in 2012. With a strong background in accounting, she is a Fellow of the Institute of Chartered Accountants in England and Wales, a member of the Institute of Chartered Accountants of Bermuda and a member of the Institute of Directors. Caroline also serves on the Hiscox Insurance Company (Bermuda) Limited and Hiscox Syndicates Limited boards as a Non Executive Director and is Chair of the Audit Committee.

External board appointments
Oakley Capital Investments Limited; Catalina Holdings Bermuda Ltd; Atlas Arteria International Limited; Ocean Wilsons Holdings Ltd.

- △ 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 63)

Appointed to the Board: November 2017

Relevant skills, experience and contribution

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

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

External board appointments

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



Independent Non Executive Director

Thomas Hürlimann (Aged 58)

Appointed to the Board: November 2017

Relevant skills, experience and contribution

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

Thomas has 30 years' experience in banking, reinsurance and insurance. He was CEO Global Corporate at Zurich Insurance Group, a \$9 billion business working in over 200 countries. Prior to that, he held senior positions at Swiss Re Group and National Westminster Bank. Thomas also serves on the Hiscox SA Board as a Non Executive Director.

External board appointments

None.



Independent Non Executive Director

Anne MacDonald (Aged 66)

Appointed to the Board: May 2015

Relevant skills, experience and contribution

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

Anne has served as Chief Marketing Officer at four Fortune 100 companies, and been in charge of some of the most recognised brands in the world, including Citigroup, Traveler's, Macy's and Pizza Hut. Anne also 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 58)

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 also 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 65)

Appointed to the Board: May 2015

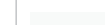
Relevant skills, experience and contribution

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

Lynn worked in the US banking industry for nearly four decades, most recently as President of Capital One Bank. Before that, she was President of Bank of America's small business banking division, a multi-billion-Dollar business with 110,000 clients and over 2,000 employees. Lynn also serves on the Hiscox Insurance Company Inc. Board as a Non Executive Director and is Chair of the Risk Committee.

External board appointments

American Express Company (NYSE: AXP); American Express National Bank; CareerWork\$; California State University Channel Island Foundation.



Group General Counsel and Company Secretary

Marc Wetherhill (Aged 49)

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

Aki Hussain to Group Chief Executive Officer
(effective 1 January 2022)

Paul Cooper to Group Chief Financial Officer
(effective first half of 2022)

Non Executive appointments

Donna DeMaio
(effective 18 November 2021)

Executive retirements

Bronek Masojada
(effective 31 December 2021)

Non Executive retirements

None.

Retired Director



Bronek Masojada (Aged 60)
Group Chief Executive Officer
Appointed to the Board: October 2006

Bronek joined Hiscox in 1993 as Group Managing Director and became Chief Executive in 2000. Prior to that he worked with McKinsey & Company, where he advised Lloyd's on its renowned Reconstruction and Renewal plan. Bronek also previously served as Deputy Chairman of Lloyd's and Chairman of the Lloyd's Tercentenary Research Foundation, and currently serves as a City of London Alderman. Bronek retired as Group Chief Executive Officer at the end of 2021 but continues to be an employee of Hiscox, providing strategic advice as a Director for key subsidiaries.



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.

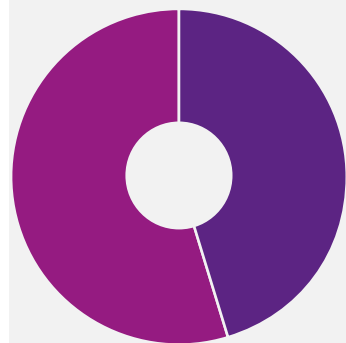
Board statistics

Board statistics

Board diversity at 2 March 2022

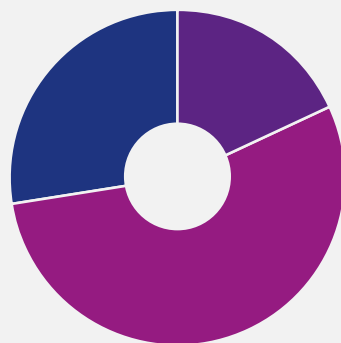
Gender

Female	5
Male	6



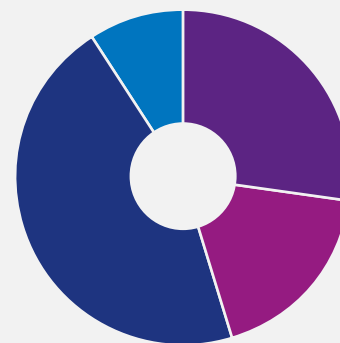
Age

46-55	2
56-65	6
66-75	3



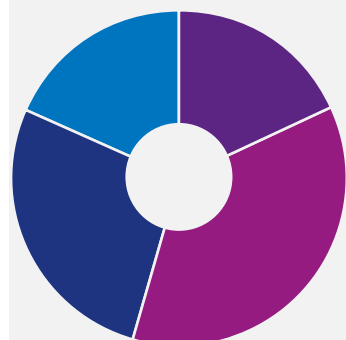
Location

USA	3
Bermuda	2
Europe	5
Asia	1



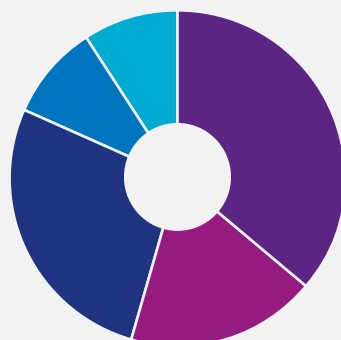
Tenure

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



Nationality

British	4
Bermudian*	2
American	3
Swiss	1
Australian	1



*Includes those Directors who hold a Permanent Residency Certificate.

Group Executive Committee (GEC)



The combination of business unit CEOs and functional leaders that we have on our newly formed Group Executive Committee drives accountability and ensures effective progress in all areas.”

Aki Hussain
Group Chief Executive Officer



Liz Breeze
Interim Group Chief Financial Officer
Joined Hiscox: May 2012

Relevant skills, experience and contribution

- Significant experience of financial and commercial management within a complex regulatory and compliance environment.
- Qualified Chartered Accountant, with significant knowledge of the UK and Bermuda (re)insurance markets.

Liz joined Hiscox in 2012 and has held a number of senior finance roles across the Group, including Group Technical Accountant, Head of Finance for Hiscox UK, and Chief Financial Officer for Hiscox Re & ILS. As interim Group Chief Financial Officer, she leads our team of 400 finance experts around the world to ensure robust financial systems and continued capital efficiency.



Amanda Brown
Chief Human Resources Officer
Joined Hiscox: October 2006

Relevant skills, experience and contribution

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

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

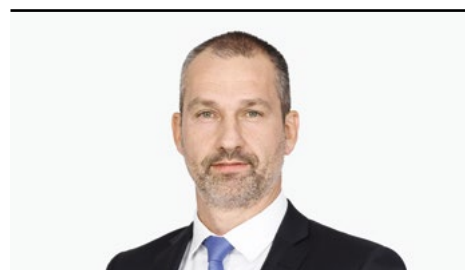


Robert Dietrich
Chief Executive Officer, Hiscox Europe
Joined Hiscox: June 1997

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.



Stéphane Flaquet
Chief Transformation Officer and
Interim Chief Executive Officer, Hiscox UK
Joined Hiscox: March 2010

Relevant skills, experience and contribution

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

Stéphane originally joined Hiscox as Chief Operating Officer for Europe, and has also served as the Group's Chief Information Officer and latterly as Chief Executive Officer of Hiscox Europe. In 2021, he took on the newly created role of Chief Transformation Officer, driving critical change programmes across the Group, and is also Interim Chief Executive Officer for Hiscox UK.



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. 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.



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 developing customer-focused eCommerce solutions.
- Multi-market, ground-up experience of building retail businesses.

Kevin has held a number of strategic planning and operational roles across the Group and was an early pioneer of our eCommerce approach. He set up and ran our UK Direct business before relocating to establish our direct-to-consumer operations in the USA. With our US Digital Partnerships and Direct (DPD) business now an important growth driver, Kevin was appointed to lead Hiscox USA in 2021.



Kate Markham

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

Relevant skills, experience and contribution

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

Kate originally joined Hiscox to run our UK Direct business, and was promoted to Chief Executive Officer of Hiscox London Market in 2017. She leads our team of 300 London Market underwriters, analysts and support functions in the UK, Guernsey and the USA. In addition, Kate is the Group's Executive Sponsor for Diversity and Inclusion.



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

Chairman's letter to shareholders

Dear Shareholder

During 2021, we announced a change of leadership of the Group. It gives me great pleasure that such is the strength of the talent within Hiscox that we were able to make an appointment from within our ranks – Aki Hussain, who previously served as the Group's Chief Financial Officer. We then needed to fill the Group Chief Financial Officer role, and here we have made an appointment from outside of the Group. Paul Cooper, who served as Finance Director for Hiscox UK and Europe from 2006 to 2011, comes back to us having gained significant experience of financial services and in particular insurance at a high level. We have also appointed a new Independent Non Executive Director to the main Board, Donna DeMaio, who will chair our Audit Committee following Caroline Foulger's departure during 2022.

Other themes remained a constant: ESG and in particular, climate change; and our focus on culture and the role of the Board in employee engagement. In these areas, I can report solid progress.

Group Chief Executive Officer and Group Chief Financial Officer succession

The Board and Nominations and Governance Committee's focus in recent years was to ensure that there were strong internal succession options for the Group Chief Executive Officer. This process involved articulating the key qualities for a Group Chief Executive Officer successor; engaging professional advisors to evaluate both internal and external talent against these qualities; and the contribution of a leading independent search firm in reviewing external candidates.

This process resulted in the Board appointing Aki Hussain as Group Chief Executive Officer, effective from

1 January 2022. His experience, skills and values align to those which we sought in a Group Chief Executive Officer, as demonstrated in his five years with Hiscox as Group Chief Financial Officer. In his new role, the Group will also benefit from his significant experience gained prior to Hiscox, which bring valuable and fresh perspective, as well as his clear thinking and drive to continue to build the business.

With Aki's appointment, the Board and Nominations and Governance Committee focused on Group Chief Financial Officer succession, a process which resulted in the Board appointing Paul Cooper to succeed Aki Hussain as Group Chief Financial Officer. Paul will join the business in the first half of 2022, at which point he will join the Board of Directors and the Group Executive Committee. I would like to personally thank Liz Breeze, Chief Financial Officer for Hiscox Re & ILS, for stepping in as Interim Group Chief Financial Officer.

New Independent Non Executive Director

The Board and Nominations and Governance Committee also oversaw the appointment of a new Independent Non Executive Director during the year. Following a robust process, Donna DeMaio was appointed to succeed Caroline Foulger both as Independent Non Executive Director and Chair of the Audit Committee when Caroline retires at the 2022 AGM. We will benefit from Donna's significant financial services and US market expertise.

Group-level and subsidiary boards

We continually review our existing structures to ensure the knowledge and expertise we have within our Group-level and subsidiary boards is shared. Many of the Independent Non Executive

Directors on our Group-level Board also serve on one or more of our subsidiary boards, and during the year Colin Keogh, our Senior Independent Director, took over from me as Chairman of the Hiscox Insurance Company Limited Board, the subsidiary board for our UK entities.

Task Force on Climate-related Financial Disclosures (TCFD)

Last year I talked about our annual climate report, which we have produced for many years and which since 2019 has been structured around a set of TCFD-aligned principles. This year we have boosted our long-standing disclosures with more information on our compliance with TCFD, in line with the new FCA requirements, which can be found on pages 54 to 59.

Culture and employee engagement

The employee engagement network we set up in 2019, chaired by our Independent Non Executive Director, Anne MacDonald, is now fully embedded and proving to be an effective means of workforce engagement, ensuring workforce views are considered in Board decision-making. Anne was chosen to carry out this role due to her relevant experience in her professional career and people skills. The network convenes twice a year and their contributions are shared with both Group-level and subsidiary boards. Their inputs have contributed to ongoing thinking in areas including how we communicate across the business, and future ways of working as hybrid working becomes the new normal.

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 76 to 81.

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 Group 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 translated into 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 Group 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 66 to 67.

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.

In particular, 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 89 to 91 and in the risk management section on pages 38 to 41.

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 ensures 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, two Executive Directors, and eight independent Non Executive Directors including a Senior Independent Director.

Notable changes in the reporting period include the appointment of Aki Hussain as Group Chief Executive Officer, effective from 1 January 2022 following Bronek Masojada's retirement on 31 December 2021, the appointment of Paul Cooper into the Group Chief Financial Officer role in the first half of 2022, and Donna DeMaio's appointment on 18 November 2021 as Independent Non Executive Director and Audit Committee Chair designate, which ensures an orderly transition in preparation for Caroline Foulger's retirement at the AGM in 2022, following the conclusion of her nine-year term with the Company. Biographical details for each member of the Board are provided on pages 62 to 63.

In accordance with the Company's Bye-laws and the Code, all Directors will seek re-appointment at the 2022 Annual General Meeting, with the exception of Caroline Foulger who will retire at the 2022 AGM. 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. 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 82 to 88.

Board independence and Director duties

The Nominations and Governance Committee review 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. As noted in the 2020 report, the Board approved that Caroline Foulger (Audit Committee Chair) could continue in office until May 2022, to allow for the completion of the 2021 financial statement process.

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 review the findings and determine if there is any conflict of interest.

With respect to 2021, 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 took on additional Board positions during the year, these were reviewed as part of our corporate governance processes and were not deemed to be significant to the extent that they would overburden that Directors' time. This has been demonstrated throughout 2020 and 2021 where all Directors have given additional time to the Company due to increased meetings caused by the pandemic. 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, including the recent induction of Donna DeMaio on her appointment as Independent Non Executive Director, can be found in the Nominations and Governance Committee report on pages 82 to 88.

The Board also has an ongoing training programme with regular items on topical issues. In 2021, this included sessions on underwriting through the cycle, developments in D&I, climate change and the disclosure landscape including TCFD and IFRS 17. 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.

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 of two Directors and the Company Secretary.

Audit Committee	Nominations and Governance Committee	Remuneration Committee	Risk Committee
— Advises the Board on financial reporting. — Oversees the relationship with internal and external audit. — Oversees internal controls including reserving and claims. The Audit Committee report can be found on pages 89 to 91.	— 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 82 to 88.	— 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 100 to 113.	— 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 10 and 38 to 41.

To ensure that the Board operates efficiently, each Director has distinct role responsibilities.

Chairman	Senior Independent Director (SID)	Chief Executive	Independent Non Executive Directors
— 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.	— 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.	— 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.	— Active participation in Board decision-making. — Advising on key strategic matters. — Critiquing and challenging proposals and activities, and approving plans where appropriate.

Board structure and decision-making

The Board operates within an established structure which includes 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 2021 as part of the annual review of terms of reference, and copies of each can be found at [hiscoxgroup.com/investors/corporate-governance](https://www.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 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 2021

In line with the agreed meeting schedule, the Board held four comprehensive meetings in 2021 (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 ten 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. There were also four additional sessions held in 2021 in relation to the appointment of the Group Chief Executive Officer.

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. This year, a number of Board meetings were held during periods where government-imposed Covid-19-related

travel restrictions and guidance were in place. As a result, it was not possible in many instances for our UK- and USA-based Directors to travel to Bermuda or join all Board meetings. Informational calls were held to allow for the continued sharing of information and ensured that all Directors had an opportunity to be apprised of all Board issues, even when, through no fault of their own, they were not able to attend the comprehensive Board meetings in person or, as a result of the prohibition in the Bye-laws, by telephone.

All Directors were able to fulfil their fiduciary responsibilities during 2021 and attended all Board and Committee meetings that they were eligible to attend (that is, those Board and Committee meetings that they were not precluded from attending as a result of Covid-19-related travel restrictions and guidance, and the Company's Bye-laws). With respect to the four comprehensive Board meetings in 2021, the Directors' attendance (and the number of meetings that they were eligible to attend) was as follows: Caroline Foulger, Michael Goodwin, Thomas Hürlimann, Costas Miranthis, Joanne Musselle, Aki Hussain, Bronek Masojada (4/4); Robert Childs, Colin Keogh (3/3); Anne MacDonald, Lynn Pike (2/2). Donna DeMaio was appointed following the final Board meeting of 2021 and as such was not eligible to attend Board and Committee meetings during 2021.

There were also four meetings of each of the Committees of the Board during 2021. 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: Caroline Foulger, Michael Goodwin, Thomas Hürlimann, Costas Miranthis (4/4); Robert Childs, Colin Keogh (3/3); Anne MacDonald, Lynn Pike (2/2). Robert Childs is a member of the Nominations and Governance Committee, Risk Committee and Investment Committee and he attended all three of the meetings that he was eligible to attend. Aki Hussain and Joanne Musselle are members of the Investment Committee and attended all four meetings, as did Bronek Masojada.

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. In 2021, among other things, this included marketing and branding; strategic assessment; workforce engagement; and digitisation. Specific sessions are held for succession planning and strategy.

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, 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. While the nature and format of this dialogue has adapted throughout the year to ensure that communication was sustained during periods of lockdown restrictions, it has remained a consistent feature. More information on how the Board engages with key stakeholders can be found on pages 42 to 43.

Board evaluation 2021

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 2021 was internally facilitated, the details of which can be found in the Nominations and Governance Committee report on pages 82 to 88.

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 under the remuneration policy.

Board activity

The Board factored the needs and concerns of our key stakeholders into its discussions and decisions throughout the year. In addition to business as usual reviews, the Board's key activity and decisions for the reporting period are detailed below. The table demonstrates the different stakeholders the Board took into account when these activities and decisions were taken.

	Shareholders	Workforce	Brokers	Customers	Regulators
Values/culture/strategy					
— Ongoing review of the values and strategy.	✓	✓	✓	✓	✓
— Initiation of the strategy refresh following the change of Chief Executive Officer.					
— Ongoing review of business unit strategies.	✓	✓	✓	✓	✓
— Loss portfolio transfers and adverse development cover implemented to reduce reserve uncertainty and bolster capital ratios.	✓				
— Continued focus on simplifying our operating model.	✓	✓			
Succession/workforce					
— Appointment of Aki Hussain as Group Chief Executive Officer, effective 1 January 2022 following Bronek Masojada's retirement, effective 31 December 2021.	✓	✓	✓	✓	✓
— Appointment of Donna DeMaio as Independent Non Executive Director and Audit Committee Chair designate on 18 November 2021, facilitating an orderly transition ahead of Caroline Foulger's retirement at the 2022 AGM.	✓				
— Oversight of the development of a robust and open culture including further embedding of the Board Employee Liaison role.		✓			
— Review of senior management succession plans, Group talent management initiatives and Group diversity and inclusion initiatives.		✓			
— Review of the employee engagement survey and approval of a shift to a more regular rhythm of review.		✓			

	Shareholders	Workforce	Brokers	Customers	Regulators
Performance					
— Approval of the 2022 business plan.	✓	✓	✓	✓	✓
— Ongoing review of the Company's financial results, going concern status and viability and open and transparent reporting of the same.	✓				✓
— Ongoing review of operational risk reviews of the Group and business units.	✓				✓
— Ongoing examination of the Covid-19 underwriting impact, reserve position and reinsurance recoveries.				✓	✓
— Approval of the final dividend payment.	✓				
Governance, compliance and internal controls					
— Updates on key underwriting exposures.	✓		✓	✓	
— Delivery of a Group-wide programme to ensure contract certainty and further identify any potential systemic risks.	✓		✓	✓	
— Approval of the updated risk limits framework.	✓				✓
ESG					
— Increased focus on the risks associated with climate change and embedding a Group-wide approach to this following a detailed exercise carried out in one of our UK subsidiaries.	✓			✓	✓
— Introduction of the clear documentation of individual climate risk assessments for the big-ticket business.	✓	✓	✓	✓	✓
— Approval of new greenhouse gas targets for the Group.	✓	✓	✓	✓	✓
— Approval of the ESG exclusions policy for the Group.	✓	✓	✓	✓	✓

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 the provisions of the Code as issued by the Financial Reporting Council in July 2018 for its financial year 2021 (as applicable to a Bermuda-registered entity), except in relation to Provision 9 on Chair independence; Provision 19 on Chair tenure (as explained below) and Provision 25 regarding the Chairman's membership of the Risk Committee.

The corporate governance statement (pages 69 to 75), the remuneration report (pages 100 to 113) and the shareholder information contained on pages 128 to 131, 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 Chair in 2013. The Chair has been in post since 2013, and has served less than nine years as Chair, however, the Chair has served as an Executive Director (Chief Underwriting Officer) prior to that. 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 now in its third year of execution and is led by the Senior Independent Director. The meeting took place in November 2021 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.

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. A similarly positive result was found in the 2021 Board evaluation as detailed on pages 87 to 88. The Board therefore retains complete confidence in the Chair's ability to act independently, and unanimously supports his re-election at the AGM.

The Company complies with all of the Provisions in Section 3 (audit, risk and internal control) except for part of Provision 25, as the Chair of the Board sits on the Risk Committee. The Board considers that this brings value to that Committee.

Requirements	Operation and practices	Additional detail on provisions:	Compliance
 Section 1 of the Code: Board leadership and Company purpose	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 20 to 33 demonstrate the Company's strong performance and position. In the corporate governance overview on pages 69 to 75, we detail the governance structure and how this contributes to the delivery of the Company's 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: The Company's purpose and values were last reviewed in 2019. 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 6 to 7). 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 38 to 39). 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 as highlighted in the overview of Board decisions on pages 74 to 75. Further stakeholder engagement measures are detailed on pages 42 to 43. 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 2021 results can be found on page 6. The overview of Board decisions on pages 74 to 75 highlights where the Board took account of the workforce in decision-making.	 Provision 1: pages 38 to 41 (risk management), pages 8 to 9 (business model) Provision 2: pages 74 to 75 (Board activity), pages 94 to 125 (chapter 4, remuneration). Provision 3: pages 42 to 43 (shareholder engagement). Provision 4: No AGM votes below 80%. Provision 5: pages 42 to 43 (stakeholder engagement) pages 74 to 75 (Board activity). Provision 6: page 69 (corporate governance framework). Provision 7: pages 69 to 73 (Non Executive Director time, corporate governance framework). Provision 8: Group governance manual and Director appointment letters.	 The Company applied all of the principles and complied with the provisions of section 1. Provision 5 refers to S172 of the UK Companies Act which is not applicable to Hiscox as a Bermuda-incorporated company, therefore compliance is against Bermudian Director duties, as detailed on page 64.

Requirements	Operation and practices	Additional detail on provisions:	Compliance
 Section 2 of the Code: Division of responsibilities	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 72. 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 69 to 75 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 71). No individual or small group has unfettered powers of decision. The Board has a majority of independent Directors. As noted in the 2020 report, the Board approved that Caroline Foulger could continue in office until May 2022, to allow for the completion of the 2021 financial statement process, and the Board considers that she continues to demonstrate independence of thought and judgement to fulfil her role as Audit Committee Chair effectively. Donna DeMaio's appointment as independent Non Executive Director and Audit Committee Chair designate on 18 November 2021 ensures an orderly transition in preparation for Caroline's retirement following the conclusion of her nine-year term with the Company. 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 82). 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.	 Provision 9: see explanation left, (Chair independence and tenure), page 71 (CEO and Chair separate roles). Provision 10: pages 62 to 63 (Board of Directors). Provision 11: pages 62 to 63 (Board composition). Provision 12: pages 62 to 63 (Board composition), pages 87 to 88 (Board evaluation). Provision 13: page 72 (Board cycle). Provision 14: page 71 (structure of Board decision-making), pages 72 to 73 (Board attendance in 2021). Provisions 15 and 16: Group governance manual and Director appointment letters.	 The Company applied all of the principles and complied with the provisions of section 2 except for Chair independence within Provision 9 (see page 76).

Requirements	Operation and practices	Additional detail on provisions:	Compliance
 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 was updated in 2021 and republished as detailed on pages 84 to 87. 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 lead on the delivery of this principle on behalf of the Board as detailed on pages 82 to 88. 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 62 to 63 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 82 to 88. 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 87 to 88).	 Provision 17: page 82 (key responsibilities and membership, Nominations and Governance Committee report). Provision 18: pages 62 to 63 (Board composition). Provision 19: See explanation above (Chair independence and tenure). Provision 20: pages 82 to 84 (talent review and Board composition and succession, Nominations and Governance Committee report). Provisions 21 and 22: page 82 to 88 (Board evaluation, Nominations and Governance Committee report). Provision 23: pages 82 to 88 (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 76).

Requirements	Operation and practices	Additional detail on provisions:	Compliance
 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 2021 can be found on pages 89 to 91. The Directors' responsibilities statement, going concern and viability statements are set out on pages 128 to 131. 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 89 to 91. 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 and emerging risks faced by the Company. An overview of risk management can be found on pages 38 to 41. 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 89 to 91 (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 128 to 131 (going concern and viability statements, Directors' report). Provisions 28, 29 and 31: pages 38 to 41 (risk management).	 The Company applied all of the principles and complied with the provisions of section 4, except for 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
 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 and culture (see pages 6 to 7). 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 112). The remuneration policy was reviewed in May 2020, and changes were made to rebalance the weighting of incentives towards the long term in order to encourage an ownership culture and increase the focus on long-term performance. Shareholders' views on proposed changes to the policy were sought and shareholders were supportive of this approach. In 2021, the Employee Liaison facilitated a discussion with respect to the content of the remuneration policy and how this aligns to wider Company pay policy, and shared 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 94 to 128. The Remuneration Committee comprises of 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 94 to 96 (annual statement from the Chair of the Remuneration Committee). Provision 34: pages 105 and 109, (Non Executive Director fees, Chair remuneration). Provisions 35: page 110 (consultants are highlighted in chapter 4: remuneration). Provisions 36, 37, 38, 39: pages 114 to 125 (remuneration policy). Provisions 40 and 41: pages 94 to 125 (chapter 4: remuneration).	 The Company applied all of the principles and complied with the provisions of section 5.

Nominations and Governance Committee report



It has been a busy year for the Committee, but achieving a smooth Group CEO transition was particularly rewarding.”

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 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 intra-Group 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](https://www.hiscoxgroup.com/investors/corporate-governance).

Key activities of the Committee:

The Committee's key priorities in 2021 were as follows.

- Group Chief Executive Officer succession, a process which resulted in the recommendation to the Board of the appointment

of Aki Hussain as Group Chief Executive Officer.

- Group Chief Financial Officer succession, a process which resulted in the recommendation to the Board of the appointment of Paul Cooper to succeed Aki Hussain as Group Chief Financial Officer.
- Appointment of a new Audit Committee Chair, Donna DeMaio, with a transition period involving the outgoing Audit Chair to ensure an orderly transition.
- Review of the Board diversity and inclusion policy and ongoing diversity monitoring of the Board and senior management.
- Review of the Board evaluation outcomes.

Talent reviews

The Nominations and Governance Committee leads on Executive succession planning via an established and robust talent review process.

This process reviews key talent plans throughout the Group across three time horizons: zero-to-two years; two-to-five years; and the watch list. The Group review focuses on the Group Executive Committee, and their direct reports, and the Company Secretary. The main focus of the talent reviews in 2021 and into 2022 was the succession and appointment of the Group Chief Executive Officer and the transition plans following Aki Hussain's promotion to Group Chief Executive Officer, along with other senior management changes. 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.



Summary of the Group Chief Executive Officer succession process

The Board and Committee's focus over the last number of years was to ensure that there were strong internal succession options for the Group Chief Executive Officer.

The Committee articulated the key qualities for a CEO successor, and engaged professional advisors to evaluate both internal and external talent against these qualities. This process was supported by a leading independent search firm, Russell Reynolds Associates, who conducted a thorough review of external candidates and presented these to the Committee. The firm was appointed due to its strong credentials, international reach and participation in the voluntary code of conduct to address gender and ethnic diversity on UK-listed company boards of directors. The search firm used was deemed to be independent as it does not have any connection with the Company or its individual Directors other than in its engagement in this capacity.

The Committee considered input from all of the external advisors, in addition to conducting its own evaluation of candidates. Following this rigorous review process Aki Hussain was selected as new Group Chief Executive Officer, effective from 1 January 2022, due to:

- his experience, skills and values, which align with those which were sought in a Group Chief Executive Officer, as demonstrated in his five years with Hiscox as Group Chief Financial Officer;
- the benefit of vast experience gained prior to Hiscox which brought a valuable and fresh perspective;
- his clear thinking and drive to continue to build the business.

More information on Aki and his vision can be found on page 2.

Following the announcement of Aki Hussain's appointment to Group Chief Executive Officer, effective 1 January 2022, a transitional plan was put in place to address the resulting Group Chief Financial Officer vacancy. A search process was initiated in the summer of 2021 for a replacement Group Chief Financial Officer with the appointment of an independent search agency, Spencer Stuart, which had strong credentials, international reach and participation in the voluntary code of conduct to address gender and ethnicity diversity on UK-listed company boards of directors. The search firm used was deemed to be independent as it does not have any connection with the Company or its individual Directors other than in its engagement in this capacity. This process resulted in the announcement on 21 December 2021 of Paul Cooper as the new Group Chief Financial Officer. Paul has over 25 years of financial services experience across both the retail and Lloyd's insurance markets. As such, the Group will benefit from both his insurance market knowledge and his audit, regulatory and capital markets experience. He will join the Group in the first half of 2022, at which point he will also become a Board and Group Executive Committee member. In the meantime, Liz Breeze, Chief Financial Officer for Hiscox Re & ILS, has been appointed Interim Group Chief Financial Officer, effective 1 January 2022.

Board composition and succession

As part of the annual Board succession planning process, the Nominations and Governance Committee reviewed the composition of the Board in 2021. 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 focuses on Non Executive succession and aligns to the talent reviews for the Executive Directors. Following these formal reviews, the Board remain 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 62 to 63 demonstrate the nature and breadth of each Director's relevant skills and experience. Additionally, all Directors have demonstrated that they have adequate capacity to address their duties, evidenced by all Non Executive Directors having been able to lead the Company through the challenges of the pandemic which, as detailed in last year's Annual Report and Accounts and continued in 2021, included more frequent informal interactions with the Executive Directors and senior management as well as attendance at more sessions than in a standard year.

As part of this Board review, an appointment process was initiated for the replacement of Caroline Foulger as Independent Non Executive Director and Chair of the Audit Committee. This was the main Non Executive Director succession focus for 2020 and 2021. An early appointment was sought to ensure that an orderly transition could take place with the outgoing Chair, and to give sight to the new Chair of the 2021 financial review cycle. The appointment process is detailed in the table on page 85, and resulted in the appointment of

Donna DeMaio. Donna's induction is ongoing and, while she will formally take over as Chair of the Audit Committee following Caroline's retirement at the 2022 AGM, Donna has been a key participant in the review of the 2021 Annual Report and Accounts.

Following the appointment of the Audit Committee Chair, a further review was undertaken on the composition of the Board. 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, but that it would be useful to investigate how the Board could be further bolstered in certain areas and in the continued delivery of a diverse Board. This was also central to the Board effectiveness review.

Diversity and inclusion (D&I)

D&I has been a strategic priority for a number of years and remains critical to our development as a sustainable 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 teams that are as diverse as the customers and communities we serve, with a working environment where all our people can thrive. Our belief is that diverse perspectives and different ways of thinking help us anticipate and meet market needs in new ways. This diversity of thought allows us to look at problems differently, and helps make us more innovative and a stronger partner for our customers.

We have a Global Head of D&I and a D&I Executive Sponsor for the Group who together drive our D&I strategy

and progress. This includes our D&I approach to manager training, alignment of HR policies with inclusion requirements, amplifying efforts via employee and broker networks, and ensuring alignment to credible external D&I commitments. In addition, each business unit Chief Executive Officer and functional leader has developed an action plan for gender and ethnic diversity which includes aspects such as recruitment, career development, education and awareness and community engagement. These plans are monitored centrally and also via specific local reports to subsidiary Boards. This approach is supported by an annual report on D&I which this Committee receives.

Board D&I policy

In 2021, the Committee reviewed the existing Board diversity policy and updated this to reflect more clearly the underlying ethos of the Company, the ongoing delivery of a diverse Board, and to formalise the Committee's oversight of the Group's wider D&I programme.

The new Board D&I policy builds on the prior iteration, which focused on key requirements for appointments and links to the Board succession planning process which monitors skills, knowledge and experience in addition to diversity (both gender and ethnicity). The policy continues to recognise the benefits of diversity in its broadest sense and sets out the Board's ambitions while clarifying its qualitative objectives. The Committee's terms of reference were updated to formally note the relevant changes to the Board's responsibilities regarding D&I oversight.



Audit Committee Chair succession process

A formal and transparent process was deployed for the appointment of the Audit Committee Chair.

Requirements	Process	Interview and appointment	Induction
In 2020, as part of the orderly succession plan for the retirement of the Audit Committee Chair, it was agreed to target an appointment to be in place by late 2021. The key requirements of the role were agreed as being recent audit and finance experience. It was agreed that a diverse candidate with these skills would also be highly regarded. A review was completed by the Committee on the geographical location of the new Audit Chair, assisted by an externally delivered market map of available Directors. A brief was prepared for the role specifying the above.	The process was initiated with the appointment of an agency. Russell Reynolds was engaged based on its market reputation, and alignment to our D&I objectives. The search firm used was deemed to be independent as it does not have any connection with the Company or its individual Directors other than in its engagement in this capacity. The search firm identified potential candidates assessed against the role specification, based on merit, and with due regard for the benefits of all forms of diversity on the Board, including gender and ethnicity. This produced a long list of high-quality candidates from a broad range of potential sources of talent. Candidates were then shortlisted for interviews, which focused on each candidate's skills and experience for the role.	A formal, multi-stage interview process was used to assess candidates. Following interviews with the Chairman, the Chair of the Audit Committee and the incoming Group Chief Executive Officer, a number of candidates progressed to meet other Board members. All interview candidates were deemed appropriate for appointment based on their skills and experience, and subject to a referencing process and review of any potential conflicts and time availability (assessed against significant time commitments). The outstanding candidate for the role was Donna DeMaio, and the Nominations and Governance Committee agreed that she demonstrated significant financial services and US market expertise. The position further assists in the development of our diverse Board. The appointment was announced on 22 November 2021.	Donna's induction consisted of a tailored induction programme which allowed her to become more familiar with the working of the Board and the Group, and to fully understand the Company's operating environment (internal and external). This included meetings with individuals from the Board, senior management and external auditors, and was supported by an induction pack. The programme is tailored to Donna's appointment and it was continually reviewed to identify additional areas where induction is required. A key part of the orderly transition from one Audit Committee Chair to another was Donna's active participation in the ongoing review cycle for the 2021 Annual Report and Accounts.



Board D&I objectives and 2021 progress

Board objective	Implementation	Progress
1. Ensure a diverse¹ and effective Board ¹ Diversity of gender, social and ethnic backgrounds, cognitive and personal strengths.	- At least 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 65 of the report demonstrates the diversity of our Board as at 2 March 2022. Via the delivery of our Board diversity and inclusion policy, we have: - maintained a gender balance in line with the Davies and Hampton-Alexander reviews since 2015; - had one ethnic minority Director for five years.
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. Talent reviews are replicated throughout the business. In 2021, the Board made three permanent appointments: - new Group Chief Executive Officer (Aki Hussain); - new Group Chief Financial Officer (Paul Cooper); - new Independent Non Executive Director and incoming Chair of the Audit Committee (Donna DeMaio). All appointments had gender and ethnic diversity considered when evaluating the skills, knowledge and experience required, with the respective search firms committed to addressing gender and ethnic diversity. The best candidates for the roles were selected against merit, the needs of the Board and Company, and its strategy and values. An Interim Group Chief Financial Officer appointment (Liz Breeze) was also made from internal succession plans while a longer-term appointment was sought.
3. Ensure that the overall workforce is diverse and inclusive	- Review the execution of the Group diversity and inclusion policy². - Ongoing Board and Committee review of matters relating to employee retention, engagement and culture. ²hiscoxgroup.com/diversity-and-inclusion-policy.	The Committee has an annual report from the Global Head of D&I. We have a Head of D&I and a D&I Executive Sponsor for the Group, who together drive our progress and a key commitment from every business unit and functional area Chief Executive Officer to deliver on our employee D&I targets. These plans are monitored centrally and also via specific local reports to subsidiary boards. Further work is ongoing to develop the next iteration of this strategy. The tables on page 87 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.

Gender diversity at 31 December 2021

	Male	Female
Board	55%	45%
Group Executive Committee	40%	60%
Direct reports to the Group Executive Committee	52%	48%
All employees	50%	50%

Group D&I policy

We have a Group D&I policy that applies to the workforce and is reflective of our Company values (see page 7). Alongside this, the employee networks we have established – covering topics such as mental health and well-being, and touching communities including parents and carers, Pride, pan-African and Latino – drive D&I progress across our offices.

We will look to build on this good work in 2022 and beyond, with a Board-approved D&I strategy which continues to focus on representing, leading and guiding the D&I culture, strengthening and leveraging data and insights, inspiring with our story, and embedding D&I into business as usual. Together, these initiatives will strengthen further the diversity measures in place and build the maturity of the D&I landscape at Hiscox.

The Hiscox Ltd Board D&I policy and Group D&I policy are publicly available on our website at [hiscoxgroup.com/about-hiscox/group-policies-and-disclosures](https://www.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.

We have also fulfilled our UK obligations to report our gender pay gap ratios with respect to our UK subsidiaries, and published our fifth annual gender pay report during the year. This report sets out in detail the D&I programmes and initiatives we pursued during 2021, and can be viewed at [hiscoxgroup.com/gender-pay-report-2021](https://www.hiscoxgroup.com/gender-pay-report-2021).

In addition, we complied with the provisions of the Hampton-Alexander Review, which set a minimum target for

Ethnic diversity at 31 December 2021

	Members with ethnic minority background
Board	9%
Group Executive Committee	20%

FTSE 350 companies to achieve 33% representation of women on FTSE 350 boards and in the two layers of leadership below the Board (the Group Executive Committee and the direct reports to the Group Executive Committee) by the end of 2020. While the target for compliance has now passed, our ambition to achieve greater gender diversity at all levels remains, which is why we continue to track and report our progress.

Equally, we complied with the provisions of the Parker Review, which set a minimum target of having at least one ethnic minority Director on the Board by 2021, which we have had since 2016.

We are committed to improving our ethnic diversity at all levels, to ensure our workforce reflects the customers and communities that we serve. 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. Improving the volume of voluntary disclosure from employees remains a focus area.

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.

2021 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, such as 2021, 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 are addressed in turn below.

2021 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 objective delivery; Board accountability, focus and priorities; Board composition and culture of the Board including independence, expertise, decision-making and dynamics, and succession planning; Board progress on diversity, climate change approach and digitalisation; and Board support. The format of the evaluation was a confidential survey of 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.

2021 Board review outcomes

The 2021 Board review continued to find a strong and dynamic Board in place which 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.

All 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 review also focused on three areas: climate change, diversity and digital. The evaluation revisited the external reviewer's findings in 2020 and were content to re-confirm that the independence of the Board (as currently composed) was deemed satisfactory; the Chair was seen to continue to demonstrate strong leadership; and the Non Executive Director succession plans were considered to be robust.

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 2022:

- strategy – continue to review the Group's strategy to further address risk, operations and competitor environment in a fast changing world;
- management information – building on new management information to further increase the linkage between objective setting and monitoring;
- people and succession planning – further focus on workforce diversity and inclusion, employee

- engagement, and key long-term succession planning for senior management, the Non Executive Directors and the Chair. Additionally, the Board will ensure a smooth transition of the new Group Chief Executive Officer, Group Chief Financial Officer and Audit Chair;
- climate change/ESG – further work on the Company's strategic response to climate change and further deep dives on social and governance;
- IFRS 17 *Insurance Contracts* – oversight of IFRS 17 and understanding the business changes and peer positioning on this in addition to the financial changes;
- topics for review – additional topics for review were identified as part of the review which then influenced the agenda and training plans for the year.

The Board welcomed the review's findings with the actions feeding directly into ongoing succession planning discussions and Board developments. The Chair owns the action plan relating to the actions and leads the implementation of these actions, and will report on their delivery in the 2022 Annual Report and Accounts.

2020 external Board effectiveness review – progress against identified actions

In 2020, an external evaluation was completed by Lintstock, an independent third-party agency. Overall the external evaluator rated Board and Committee effectiveness as good or extremely good with no fundamental issues highlighted. In particular, Lintstock noted that the independence of the Board (as currently composed) was deemed satisfactory;

the Chair was seen to continue to demonstrate strong leadership; and the Non Executive Director succession plans were considered to be robust.

However, the Board and its Committees have made tangible progress against many of the action points identified during 2021:

- focused on the succession of Executive Directors and other key leadership positions as detailed in this report;
- transitioned back to in-person meetings when Covid-19-related restrictions allowed for this, while retaining the use of video-conferencing for interim Board calls and updates;
- driving accountability and excellence in execution, including the continued monitoring of progress against the Company's business priorities and key projects;
- continued discussions on strategy, including business mix and capital allocation;
- devoted more time to considering changes in the external environment and their impact on Hiscox, including competitor activity in key markets; and
- maintained a focus on talent management, employee engagement and the retention of high performers.

Robert Childs

Chair of the Nominations and Governance Committee

Audit Committee report



This will be my final report before stepping down from the Board in 2022 and I am delighted to state that the Audit Committee continued to work effectively in 2021. We were pleased to welcome Donna, whose experience within both financial services and the US market will be valuable for the next stage of the Group's journey."

Caroline Foulger
Chair of the Audit Committee

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. 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.

The Committee is comprised of eight independent Non Executive members. Following the transition of the Chair role to Donna DeMaio in May 2022, this will return to seven 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 primary areas considered by the Committee in relation to the 2021 Annual Report and Accounts were as follows.

i) Reserving for insurance losses

As set out in our significant accounting policies on pages 154 to 155, 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 also the key judgements within those estimates. The Committee reviewed and challenged the key judgements and estimates in valuing the insurance liabilities.

During the year, a number of natural catastrophes occurred which impacted the Group, including Hurricane Ida, Storm Uri, and European floods. 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 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 2021 was appropriate.

ii) The recoverability of reinsurance assets

The Committee received regular updates on the credit risk exposures to reinsurers, including the impact of

business interruption and the status of recoveries resulting from Covid-19. There were updates on the process to monitor the levels of recoverability, including the level of collateral held, and the regular contact with counterparties, the ratings of reinsurers and the concentration of risk. The reinsurer panel and associated exposures appear to be robust, and management are not aware of any material issues regarding concentration risk, credit risk or default risk. 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 reviewed and advised the Board on the Group's going concern and longer-term viability statements included in this Annual Report and Accounts, and the assessment reports prepared by management in support of such statements. As part of this review, the Committee assessed the methods, assumptions and judgements underpinning the going concern assessment. The Committee was satisfied by the level of analysis presented during the year, the related approach taken, and statements made in the Group's key external reporting. More information on the going concern and viability statements can be found on pages 128 to 129.

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 reviewed and discussed the analysis performed by management and challenged the appropriateness of the assumptions made.

The Committee is satisfied with the approach taken and the recoverability of the assets.

v) Accounting for the defined benefit scheme

As explained in note 2.15, the Group recognises the present value of the defined benefit obligation, less the fair value of plan assets at the balance sheet date. The Committee reviewed the report of the key judgements and estimates in the financial statements from the Group Chief Financial Officer, and the results of the independent pension valuation, and is satisfied that the assumptions used to measure the net liabilities are reasonable.

vi) 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 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) of this report.

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 challenged the underlying assumptions for the recognition of deferred tax assets, principally the availability of future taxable profits and utilisation period.

viii) Estimated premium income

An estimate included within the Group's close process is an estimate of gross premiums written during the year. For certain contracts, premium is initially recognised based on estimates of ultimate premium. This occurs where pricing is based on variables which are not known with certainty at the point of binding the policy. In determining the estimated premium, the Group uses information provided by brokers and coverholders, as well as past underwriting experience, the contractual terms of the policy and prevailing market conditions. The estimated gross written premium is regularly reviewed and the Committee is satisfied with the approach taken.

Systems and process change projects

The Committee received updates on various change projects including the Group's programme implementing IFRS 17 *Insurance Contracts*. The IFRS 17 updates covered key IFRS 17 accounting policies which have been approved, educational material, and programme risks and governance.

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 2021, key themes included core underwriting and claims controls, Covid-19-related impacts, change controls and embedding, the financial control framework, data governance and controls, various regulatory themes, and information security.

External auditor

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

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

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

Chair of Audit Committee

As part of the succession plan for the retirement of the Audit Committee Chair, it was announced on 22 November 2021 that Donna DeMaio will become the new Chair. A key part of the orderly transition from one Audit Committee Chair to another was Donna's active participation in the ongoing review cycle for the 2021 Annual Report and Accounts. See page 85 for further details.

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.

Caroline Foulger
Chair of the Audit Committee

Q&A:

with Dan Alpay

Line Underwriter – Flood, Hiscox London Market

Rising tide

US flood is a major growth area for our big-ticket business, driven in part by innovations in digital underwriting.

Dan Alpay joined Hiscox in 2009 as part of the very first graduate training scheme. In 2016, he took over as underwriter for the household line of Hiscox London Market. Also contained within his portfolio was US flood – then, in Dan’s words, ‘a tiny fledgling business’. By 2019, the flood product had grown to the point where it demanded his full-time attention.

Q: How did US flood come to be part of the Hiscox London Market offering?

A: Since 1968 flood had been underwritten by the US government. If you’re in a flood zone and have a federally backed mortgage – which most mortgages are – it’s a legal requirement to buy flood insurance. But until a few years ago, you could only buy it through the government’s National Flood Insurance Program (NFIP) – no private carrier could offer flood insurance. In 2012, the NFIP was \$30 billion in debt, mainly due to Hurricanes Katrina and

Sandy, so the government decided to throw open the marketplace. After watching closely for a couple of years, we sensed an opportunity to move in. Through the NFIP, you can only buy \$250,000 of buildings cover and \$100,000 of contents. When those limits were put in place in the seventies, they would have covered most buildings in the USA; now they don’t come close. Using the strength of our underwriting, we’re able to offer something much broader: our FloodPlus product covers up to \$2.5 million in value.

Q: US flood is expected to continue to grow strongly. What’s the secret behind that rapid growth?

A: It’s really a success story about digital trading. We decided quite quickly that we were going to build an online platform to do the underwriting for us – we had no legacy to build on, so we had the luxury of a blank slate. Although we also distribute flood through third-party intermediaries, the way it’s

underwritten isn’t manual at all. It uses an online rating portal, which we control. It’s a very different rating mechanism, which allows us to be faster, more responsive and a lot more granular in what we do.

It’s not been simple. Any underwriting product demands tonnes of data, but we started out with nothing except a few models, which were still in their infancy, and our gut feel for underwriting. The NFIP didn’t release any of its data until 2020, so everyone was going in blind. Then Hurricanes Harvey and Maria hit in 2017, and that was an important learning point for us. With a catastrophe product, you’re not getting claims every day, so although any big event is a negative in terms of cost, it gives us another chance to evaluate the product. We doubled down, kept investing in technology, and have grown ever since. It’s been a fun ride, and we’re in an exciting place now.

Q: Is flooding a growing problem in the USA?

A: We deal with hurricane-borne flooding and flooding from just normal rain and river rise, and both appear to be getting more prominent as time goes by – clearly driven by climate change. The big events tend to be happening more frequently. Cat 4 and Cat 5 landfalling hurricanes are supposed to be rare, but we’ve seen five in the past three years and that does raise the question: is this a blip or is it the new norm? The challenge for us is to ensure we’re pricing for the growing risk and providing adequate cover for customers who want protection.

Q: How was 2021 for you?

A: Really good. We managed to grow the portfolio significantly. We weathered more events, and we weathered them while retaining profitability. We’re at the point now where there’s strong belief within the business that this is working.

More and more customers are buying the product, more brokers and distributors are wanting to talk to us. Most importantly, it’s genuinely helping people. Hurricane Ida, which caused extensive flooding in New York, New Jersey and Connecticut in September 2021, was testament to that. We’ve been going through the process of paying those claims, putting people back on their feet.

Q: How do you see the human value being applied at Hiscox?

A: I think Hiscox as a culture tends to be very empathetic, but also fair, and that’s quite a hard balance to strike. We’ve had a tough few years, the market has been in a bad place, and it’s easy at times like that for people to feel disillusioned or worried. In that moment, you need empathetic leadership. I think that’s been expressed really well. There are a lot of individuals here who take it upon themselves to put an arm around someone, and that is so important.

Q: During the lockdowns of the past two years, what did you miss most about being around other people?

A: Mostly, just having a chat about something completely unrelated to work. We did virtual catch-ups all the time, but it’s never the same as the experience you have when you’re together, bouncing off each other. The other thing it brought home is how much we learn by osmosis. That’s especially important for people who are just starting out. If you’re sitting in your house on your own and you have a small question you can’t answer, you’re not going to call your manager or set up a meeting. But when you’re in the office and they’re sitting right next to you, you’ll just lean over and ask. You miss all of that working remotely.



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

At Hiscox, 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.

The Committee believes that for all employees, basic pay should be competitive, with bonuses reflecting personal and business performance. We expect all employees to meet or exceed a series of objectives based on our strategy and values, which are essential to Hiscox’s business operations and reputation, including delivering great customer service, complying with regulation and managing risk. Long-term share awards provide alignment with the shareholder experience and reward demanding performance targets linked to net asset value per share growth and shareholder returns.

We believe this approach works well for both our employees and shareholders, and I would like to thank shareholders for their high levels of support on the remuneration resolutions at the AGM in recent years.

Performance and remuneration outcomes

In 2021, the Executive Directors led the business to deliver a pre-tax profit of \$190.8 million (2020: loss of \$268.5 million), pre-tax ROE of 8.1% (2020: -10.8%) and a combined ratio of 93.2% (2020: 114.5%). Despite elevated natural catastrophes losses and a subdued investment return, this represents a resilient performance, helped by portfolio optimisation action taken over a number of years and

improving rates in big-ticket lines. In the UK, the business has continued to prioritise UK business interruption claims and has made significant progress in settling claims during 2021.

During 2020, we made a commitment that Executive Directors would not be paid a bonus until the dividend had resumed, irrespective of the Group’s performance. Dividend payments have now been resumed, with an interim dividend of 11.5 cents per share paid on 22 September 2021 and a final dividend (subject to shareholder approval) to be paid on 13 June 2022 of 23.0 cents per share, in line with pre-Covid-19 levels. Hiscox has not furloughed any staff or accessed any UK, USA, or European government support schemes.

For 2021, a pre-tax ROE of 8.1% was achieved (above the hurdle rate of 2.5%) and a bonus pool was therefore created. In considering the bonus awards for Executive Directors, the Committee took into account the ranges agreed at the start of the year alongside the personal performance of the individuals, the delivery of Group’s business priorities, and the overall performance of Hiscox, as well as a consideration of risk. More information on business performance during 2021 can be found on pages 16 to 33, and for more on Executive Director performance see page 103. Taking these factors into account, Bronek Masojada and Aki Hussain were awarded bonuses of 90% of salary, representing 30% of the maximum opportunity. Joanne Musselle as Group Chief Underwriting Officer, was awarded a bonus of 107% of salary, representing 27% of the maximum opportunity, reflecting the best underwriting result for five years.

This bonus outcome follows two years of zero bonus pay-out for the Executive Directors during 2019 and 2020 – in line with our approach of rewarding financial achievements, not just effort – despite very strong personal performance over those two years. For the wider workforce during this period, we paid bonuses relative to personal performance and business area profitability.

The 2019-2021 Performance Share Plan (PSP) was set against stretching net asset value plus dividends per share targets. The net asset value per share threshold of 7.5% compound growth over the three-year performance period was not met.

As already noted, the Committee assessed performance in the round when determining variable pay outcomes, including an assessment of wider Company performance, the employee experience, the shareholder experience and wider stakeholder experience, alongside a consideration of risk. The Committee concluded that there would be no exercise of discretion to override the outcomes of the performance conditions for 2021.

Board changes in 2021

After 21 years as Group Chief Executive Officer (CEO), Bronek Masojada stepped down as an Executive Director of Hiscox with effect from 31 December 2021. Following his retirement from the Board, Bronek is continuing as an employee of Hiscox Ltd and accordingly, he has received no loss of office payment in respect of his services as a Director. In his new role, Bronek will provide strategic advice as a Director for key subsidiaries, enabling Hiscox to continue to benefit from his considerable experience. In line with our policy and best practice, Bronek

will be subject to a post-employment shareholding requirement for a period of two years from stepping down from the Board.

The Board was delighted to appoint Aki Hussain, previously Group Chief Financial Officer (CFO), as Group CEO, effective 1 January 2022. Aki's appointment followed a thorough and independent process led by the Nominations and Governance Committee, and supported by a leading recruitment firm, which involved a global search and the assessment of both internal and external candidates. More information on that process can be found on pages 82 to 83.

As announced in July 2021, Aki's salary for the Group CEO role has been set at £750,000 per annum. All other elements of his package are unchanged, namely a pension allowance of 10% of salary in line with the wider workforce, a maximum bonus opportunity of 300% of salary and a performance share plan opportunity of up to 250% of salary.

In determining the package for the incoming Group CEO, the Remuneration Committee was mindful that Bronek had been in the role for over two decades and had built up a considerable shareholding in the Company. The Committee has a track record of demonstrating a disciplined approach to salary management, with CEO increases set at or below the wider workforce since 2014. While the salary for the incoming Group CEO has been set above that of Bronek, the search process demonstrated the competitive landscape and recruitment market in which we operate, and provided direct insight into the level of packages required to attract high-quality candidates. Therefore, taking into account the scale

and complexity of the role, the calibre and experience of Aki, as evidenced by his performance as Group CFO and his knowledge of the Hiscox Group, and considering market data both for the UK and globally, with reference to our key international peers, the Committee considered that the package for the role was appropriate.

As announced in December 2021, Paul Cooper has been appointed as Group CFO and will assume the role during 2022. His salary has been set at £525,000 per annum, with all other elements of his package being consistent with that of the outgoing CFO, namely a pension allowance of 10% of salary, a maximum bonus opportunity of 300% of salary and a performance share plan opportunity of up to 250% of salary. The salary positioning is c.2.2% above the outgoing CFO, consistent with the increase to Jo Musselle's salary (and below the average UK employee increase). In line with standard practice and consistent with our remuneration policy, Paul will receive awards to compensate for remuneration arrangements forfeited on leaving his previous employer. These awards will mirror the time horizon and form of the original awards with performance conditions applied (where relevant).

Further details on Aki and Paul's remuneration arrangements are set out in the annual report on remuneration on page 107.

2022 remuneration

For 2022, Joanne Musselle's salary will be increased by 2.2%. There will be no further increases in 2022 for Aki Hussain or Paul Cooper following their appointments as Group CEO and Group CFO respectively.

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There are no proposed changes to the award levels or structure of annual bonus awards, which will continue to be based on pre-tax ROE performance, alongside individual and strategic performance, including non-financial factors, the shareholder and wider stakeholder experience, and the consideration of risk.

Bonuses will not be paid unless the Group's performance exceeds a hurdle rate of return set, taking into account prevailing market conditions.

There are no proposed changes to the award levels or structure of Performance Share Plan (PSP) awards, which will continue to be based on stretching growth in net asset value (NAV) plus dividends targets and relative total shareholder return (TSR) against a group of global insurance peers. Further detail on the 2022 PSP measures and targets are set out on pages 108 to 109.

Wider workforce

During the year, the Committee was updated on wider workforce remuneration trends and policies to aid our understanding of how Executive Directors' remuneration aligns to employees. There has been a consistent pay philosophy and reward structure across the Group for a number of years and the approach for the Executive Directors is aligned with this.

Pay

In the UK, Hiscox has been an accredited Living Wage employer since 2019. This approach ensures that everyone at Hiscox receives a wage that recognises the actual cost of living in the UK. The Board also aims to ensure workforce views on a range of issues, including remuneration, are reflected in decision-making. This is done not only through the annual employee engagement survey, but also through the employee engagement network which is led by our Employee Liaison, Anne McDonald, and which discussed remuneration during 2021 – with the outputs of those discussions fed back to the Board.

Bonuses

Annual bonus payments are funded from profit-related pools and employees who are eligible for an annual bonus are subject to the same deferral terms as set out in the policy that applies to Executive Directors. For 2021, a new element was introduced to the annual bonus for management below

the Board, to incentivise and reward individual contribution. For Executive Directors, bonuses are only payable once a minimum ROE has been achieved, with individual performance taken into account thereafter.

Share schemes

All PSP participants are subject to the same performance measures and targets for the performance element of awards. Below the Board an element of the award is non-performance tested and vests subject to continued employment.

Hiscox also operates an all-employee Sharesave Scheme to foster a culture of ownership among the wider workforce. The scheme provides all employees with the opportunity to save over a three-year period and to purchase Hiscox shares at a discounted price. The Scheme is popular, with 66% of UK employees currently participating. Shareholding guidelines also extend to Hiscox Partners who are expected to own shares valued at 100% of salary, such is our ownership culture, while Executive Directors are expected to own shares valued at 200% of salary.

Pensions

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

UK gender pay reporting

In 2021, Hiscox published its fifth annual gender pay report for the UK, and the mean pay gap of 19.1% (2020: 21.2%) 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 12 percentage points lower than when reporting commenced. The median figure was 20.7% in 2021 (2020: 25.0%). On a median basis, the gender pay gap has also reduced over time, with the exception of 2020 when the data reflects the introduction of part-time teams in our entry-level customer-facing roles, increasing flexible working opportunities, with the majority of these roles filled by women.

While some of the fundamentals remain – that our pay gap reflects the higher proportion of men in more senior roles – we are making steady progress

towards redressing the balance. We have established structures and processes which ensure that men and women are paid the same for similar roles, so the focus of our work has been on getting more women into more senior roles across the Group. Improving diversity and inclusion remains a priority, and while our progress so far has been helped by the policies, processes and partnerships we have established, we recognise there is more to do. For more information, see pages 84 to 87.

2023 remuneration policy

The current remuneration policy was approved by shareholders at the 2020 AGM and, as such, a new policy is required to be put to the vote at the 2023 AGM. We look forward to consulting with shareholders over the coming year, ahead of the policy's renewal.

In summary

The Remuneration Committee is satisfied that the 2021 outcomes are aligned with the experience of shareholders and reflective of business performance.

Colin Keogh

Chair of the Remuneration Committee

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 key changes to the remuneration package are sought. - In 2021, the Employee Liaison facilitated a discussion with respect to the content of the remuneration policy and how this aligns to wider company pay policy, and shared feedback on this with the Board. The Remuneration Committee also receives information on broader workforce remuneration policies and practices during the year which informs its consideration of the policy for Executive Directors.
Simplicity – remuneration structures should avoid complexity and their rationale and operation should be easy to understand.	- Hiscox's remuneration framework is simple, comprising three main elements: i) fixed pay (base salary, benefits and pension); ii) annual bonus; and iii) performance share awards. - The remuneration philosophy is a simple one: to reward performance. For over a decade, the foundation of the Group's remuneration strategy has been the belief that the best way to foster a high-performance culture across the Group is to ensure that pay reflects our results, not just effort. - The remuneration policy's operation in 2021, including form of awards, time horizons, and performance measures, is designed to avoid complexity and is fully disclosed in the Directors' remuneration report on pages 114 to 125.
Risk – remuneration arrangements should ensure reputational and other risks from excessive rewards, and behavioural risks that can arise from target-based incentive plans, are identified and mitigated.	- Incentive awards are capped and are not considered excessive. - Executive Directors' annual bonus awards are judgement-based within a formulaic framework based on ROE performance, to ensure they reflect their overall performance rather than being measured according to a formulaic outcome. Risk is also taken into consideration as part of this. - The Committee has the ability to apply independent judgement to ensure that the vesting outcome of performance share awards is a fair reflection of both the Company's performance and that of the individual over that period. - Part of the annual bonus is subject to deferral, and share awards are subject to a holding period following vesting. All variable remuneration is subject to malus and clawback provisions. - Following an annual review by the Chief Risk Officer, no risk adjustments are proposed to 2021 variable remuneration outcomes.
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 124. - Limits and ability to exercise discretion are also set out in the policy. No discretion was exercised in 2021.
Proportionality – the link between individual awards, the delivery of strategy and the long-term performance of the Company should be clear. Outcomes should not reward poor performance.	- Historic variable incentive pay-outs have had a strong link to the Company's actual performance. There is a track record of payment for performance, with evidence of zero bonuses where ROE performance has been below the predetermined hurdle. - The 2021 performance outcome and bonus awards are described on page 102. The 2019-2021 share grant will not vest as the performance hurdle was not met.
Alignment to culture – incentive schemes should drive behaviours consistent with Company purpose, values and strategy.	- The variable incentive schemes, including quantum, time horizons, form of award and performance measures are all designed with the Company's purpose, values and strategy in mind. - The pay arrangements for the Executive Directors are aligned with those of the broader workforce and senior team.

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 2021

Bonus of c.30% of maximum opportunity for the Executive Directors.

Long-term performance impacted by Covid-19 events and catastrophe claims. PSP awards granted in 2019 will not vest.

Single figure of £1,332,964 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.



Read our updated remuneration policy.

Implementation of policy for 2021

Salaries for 2021:

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

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

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

Maximum opportunity:

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

Over the past ten years, the average bonus to the CEO has been equivalent to 28% of the current maximum opportunity.

Performance metrics: combination of ROE and individual performance delivered against set objectives approved by the Board. Disclosure of the ROE target ranges and detail around the individual performance factors including specific risk-based objectives used to determine outcomes for 2021 is provided on pages 101 to 103.

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

2021 actual as percentage of salary:

- Bronek Masojada: 90%
- Aki Hussain: 90%
- Joanne Musselle: 107%

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).

2021 award as percentage of salary:

- Bronek Masojada: 250%
- Aki Hussain: 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.

2021 actual:

- Bronek Masojada: 3,910%
- Aki Hussain: 154% Aki Hussain was appointed in September 2016.
- Joanne Musselle: 165% Joanne Musselle was appointed in March 2020.

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

Implementation for 2022

Salaries for 2022:

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

Salary increase for Joanne Musselle of 2.2%, below the average UK employee.

Maximum opportunity, performance metrics and deferral unchanged.

Maximum opportunity, performance metrics and time horizons unchanged.

Share ownership and post-employment shareholding guidelines unchanged.

Annual report on remuneration 2021

This report explains how the remuneration policy was implemented for the financial year ending 31 December 2021 and how it will be applied for the 2022 financial year.

PwC has been engaged to audit the sections in the annual report on remuneration 2021 below entitled 'Executive Director remuneration' and 'additional notes to the Executive Director remuneration table', 'annual bonus', 'long-term incentives', 'Non Executive Director remuneration', 'Directors' shareholding and share interest', 'Performance Share Plan' and 'Sharesave Schemes', 'Payments to past Directors' and '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

2021								
Name	Salary £	Benefits £	Bonus £	Long-term incentive plan ¹ £	Retirement £	Total £	Total split	
							Fixed remuneration £	Variable remuneration £
Bronek Masojada ²	663,750	10,588	600,300	0	58,326	1,332,964	732,664	600,300
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
2020								
Name	Salary £	Benefits £	Bonus £	Long-term incentive plan ¹ £	Retirement £	Total £	Total split	
							Fixed remuneration £	Variable remuneration £
Bronek Masojada	649,625	10,533	0	0	57,085	717,243	717,243	0
Aki Hussain	500,125	7,532	0	0	45,464	553,121	553,121	0
Joanne Musselle ³	418,458	7,637	0	0	38,404	464,499	464,499	0

¹2021 long-term incentives relate to performance share awards granted in 2019 where the performance period ends on 31 December 2021. The award is due to vest on 8 April 2022. Based on performance achieved, this award will lapse in full. As the award will lapse in full there is no part of the award attributable to share price appreciation.

²Bronek Masojada retired as Group Chief Executive Officer and stepped down from the Board on 31 December 2021.

³Joanne Musselle joined the Board 2 March 2020, following her appointment as Group Chief Underwriting Officer effective 1 January 2020. The figures in the 2020 table above relate to 2 March-31 December 2020.

Additional notes to the Executive Director remuneration table

Salary

Salary reviews take place in the first quarter of the year, effective from 1 April. As noted in last year's remuneration report, Executive Directors' salaries were increased by 2.0% from April 2021, the same as the average UK-based employee salary increase.

Base salaries for Executive Directors from 1 April 2021 were as follows:

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

Benefits

For 2021, benefits provided for Executive Directors included the healthcare scheme, Sharesave Scheme, life insurance, income protection insurance and critical illness policies, as well as a Christmas gift hamper.

Retirement benefits

Bronek Masojada and Aki Hussain 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 is shown in the Executive Director remuneration table on page 100. Executive Director retirement benefits are consistent with those offered to the majority of UK employees. This has been the policy at Hiscox for a number of years.

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

Pensions							
	Normal retirement age	Increase in accrued pension during the year £000	Total accrued annual pension at 31 December 2021 £000	Increase in accrued pension net of inflation £000	Transfer value of accrued pension at 31 December 2020 £000	Transfer value of accrued pension at 31 December 2021 £000	Increase/ (decrease) in transfer value of accrued pension during the year £000
Bronek Masojada	60	3	63	–	2,712	2,933	221

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

Variable pay

To ensure that remuneration is aligned with Company performance and the shareholder experience, a significant proportion of pay is delivered through incentive awards, consisting of an annual bonus and share awards under the Performance Share Plan, which can vary significantly based on the level of performance achieved. Bonuses are only paid if results exceed a specified threshold set taking into account prevailing market conditions.

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

Annual bonus

The maximum opportunity for 2021 remained unchanged from 2020, 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.

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

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

Bonuses are not paid unless the Group's performance exceeds a given threshold, irrespective of individual performance. Over the past ten years there have been three occasions when the Group delivered a pre-tax ROE below the required threshold and no bonuses were paid to Executive Directors. The threshold is set annually using an investment benchmark rate. The threshold for 2021 was set at pre-tax ROE of 2.5%.

A commitment was made in 2020 that Executive Directors would not be paid a bonus until the dividend had resumed, irrespective of the Group's performance. The dividend was resumed in 2021, with an interim dividend paid in September 2021. As set out elsewhere in this report, the final dividend will be paid in June 2022.

When setting targets, the Committee seeks to motivate strong performance while also encouraging sustainable behaviours, in line with the defined risk appetite of the business. In determining the size of the Executive Director bonuses for 2021, the Committee used the following framework. Actual bonus outcomes also take into account personal and strategic performance and risk management.

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 using government bonds as a reference point, reflecting the rate available to investors without commercial risk. For 2021, the RFR was set at 0%. For 2021, a maximum bonus would have required ROE performance of at least RFR plus 20%.

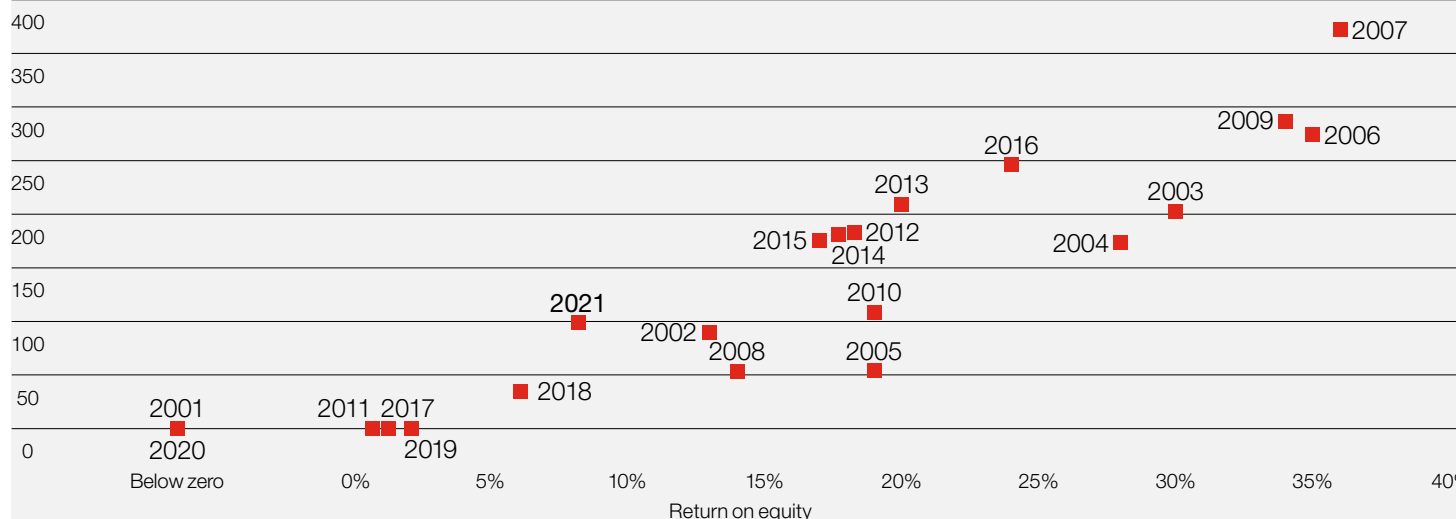
Employees below the Board also participate in a personal performance bonus scheme. Awards under this scheme are normally based on individual performance ratings. The scheme is designed to ensure that employees continue to be motivated to perform well, irrespective of overall Group performance. The benefit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

Pay for performance – track record

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

Executive Directors' cash incentives and return on equity

Bonus as a percentage of salary



Performance outcomes for 2021

The pre-tax ROE for 2021 was 8.1% therefore the performance threshold of 2.5% was achieved and a bonus pool created. Using the indicative bonus ranges set out above, and taking into account the achievement of personal and business objectives during the year together with a consideration of risk, the size of the bonus pool and the overall performance of Hiscox, the Committee determined that a bonus of 90% of salary (30% of maximum) for the Group Chief Executive Officer, 90% of salary (30% of maximum) for the Group Chief Financial Officer, and 107% salary (27% of maximum) for the Group Chief Underwriting Officer would be payable.

2021 key objectives and individual achievements by the Executive Directors

Key objectives	Achievements
Bronek Masojada Deliver the 2021 business plan	During 2021, Bronek led the business to deliver premium growth of 5.9% and a pre-tax profit of \$190.8 million. Despite an elevated year for natural catastrophes and a subdued investment return, this resilient performance is the outcome of big-ticket portfolio optimisation action taken over the last few years, good risk selection, and continued growth in our Retail operations.
Deliver the Group's business priorities for 2021	The business priorities for 2021 were: underwriting portfolio optimisation; digitising and streamlining our operating model; and nurturing talent in new ways. In underwriting, tough action taken in big-ticket lines has resulted in risk-reflective pricing, and the Group has enjoyed rate increases of 9% in aggregate and GWP growth of 5.9%. On simplification, the Group has realised c.\$20 million in underlying expense efficiencies (excluding performance-related pay and normalised for foreign exchange movements) through a range of measures including enhanced controls on headcount and third-party spend. On talent, the Group has attracted 644 new permanent employees, made 368 internal promotions, bolstered succession plans, and embedded new hybrid working practices.
Ensure Hiscox operates within risk, regulatory and societal expectations	As in 2020, Bronek led the business's response to Covid-19, including our response to paying claims in line with the Judgment delivered by the Supreme Court in January 2021, in the appeal of the UK insurance industry test case. Bronek has also overseen the development of new greenhouse gas targets for the Group, which ensure Hiscox complies with its legal requirements in the UK and other jurisdictions to support net zero.
Aki Hussain Balance sheet management	Aki oversaw the continued optimisation of the Group's capital and liquidity position, which in 2021 included the execution of two loss portfolio transfer (LPT) transactions covering prior year reserves to drive net capital efficiency of c.\$100 million. Careful balance sheet management and improving financial performance enabled the Group to resume paying dividends with the 2021 interim results.
Enhancing profitability	Aki has continued to drive ROE-enhancing opportunities for the Group. This includes influencing the underwriting strategies through a continued focus on allocating capital to where Hiscox can achieve the best risk-adjusted returns, and the achievement of ambitious expense ratio reduction targets, which are being realised through improving procurement processes and an ongoing focus on simplification. Following the appointment of a new Chief Investment Officer in 2020, Aki has also overseen a reassessment of fund managers, fees, capabilities and investment strategies, resulting in an overall reduction in manager fees, a revised line-up of fund managers with capabilities and expertise more aligned to Hiscox strategy, and improving risk-adjusted returns.
Ensure Hiscox operates within a risk and control environment that adheres to regulatory and corporate standards	Aki has established a robust and effective multi-disciplinary IFRS 17 programme that is on track to deliver the Group's requirements. Aki has also led important enhancements to the risk and control frameworks, further improving transparency of performance and oversight by the Group Audit Committee.
Joanne Musselle Active portfolio management	Joanne has led the Group's progress in underwriting portfolio optimisation, resulting in an underwriting profit of \$215.6 million for 2021 and rate increases of 9% in aggregate across the Group. A multi-year focus on active portfolio management, combined with disciplined constant course correction, has significantly improved the quality of the Group's portfolio.
Exposure management and view of risk	Joanne has driven the continued evolution of the Group's view of risk in line with internal appetite and external expectations. In 2021, this included the introduction of a Group ESG exclusions policy to reduce steadily and eliminate by 2030 our exposure to thermal coal, oil sands, Arctic drilling and controversial weapons. Joanne supported early operationalisation of the policy, which officially came into force on 1 January 2022, with both new and existing risks starting to be declined during 2021.
Underwriting governance and controls	Joanne has overseen important progress in the Group's underwriting controls and governance around product, pricing, appetite and wordings. This includes the introduction of new appetite bullseyes for each line of business in every business unit, and underwriting governance structures that drive business unit accountability and provide new opportunities for challenge, validation and escalation. In 2021, this process has supported the Group's Retail business units in reducing both the number and complexity of our wordings.
Developing underwriting talent	Joanne has continued to find innovative ways to develop the Group's underwriting talent, this year developing a new 'faculty of underwriting' framework delivering underwriting-focused technical and behavioural training. This supports the existing succession planning structures and talent monitoring processes, through which we identify and subsequently invest in high-potential underwriters.

Long-term incentives

Performance Share Plan awards (PSP) where the performance period ends with the 2021 financial year

The Executive Directors were granted nil-cost options under the PSP on 8 April 2019 for the three-year performance period 1 January 2019 to 31 December 2021.

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

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

The risk-free rate (RFR) for the awards granted in 2019 was set at 1.5%.

Performance outcome

Based on the three-year average growth in net asset value plus dividends of 0.1%, the awards ending with the 2021 performance year will not vest as the minimum performance threshold has not been met.

PSP awards granted during the 2021 financial year

As disclosed in the 2020 Directors' remuneration report, PSP awards granted to the Executive Directors in 2021 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.

On 8 April 2021, the Executive Directors were granted nil-cost options under the PSP as shown below.

	Number of awards granted	Market prices at date of grant* £	Market value at date of grant £
Bronek Masojada	187,612	8.588	1,611,212
Aki Hussain	144,436	8.588	1,240,416
Joanne Musselle	144,436	8.588	1,240,416

*The middle market quotation on the date of grant (8 April 2021) was £8.588.

The performance condition for these awards, measured over the period 1 January 2021 to 31 December 2023, 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 2021 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 vesting (net of tax charges) at the end of the performance period for a further two years (five years post the start of the performance period).

Non Executive Director remuneration

The table below sets out the remuneration received by the Non Executive Directors for the financial years ending 31 December 2021 and 31 December 2020.

2021	Total split						
	Ltd Board fee £	Ltd Committee fee £	Subsidiary Board fee £	Benefits ¹ £	Total £	Fixed £	Variable £
Robert Childs (Chairman)	295,000	–	–	12,868	307,868	307,868	–
Donna DeMaio ²	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 Hürlimann	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	–

2020	Total split						
	Ltd Board fee £	Ltd Committee fee £	Subsidiary Board fee £	Benefits ¹ £	Total £	Fixed £	Variable £
Robert Childs (Chairman)	295,000	–	–	11,655	306,655	306,655	–
Caroline Foulger	62,774	35,766	88,956	–	187,496	187,496	–
Michael Goodwin	62,774	28,467	32,847	–	124,088	124,088	–
Thomas Hürlimann	62,774	28,467	52,212	–	143,453	143,453	–
Colin Keogh	75,182	35,037	48,000	–	158,219	158,219	–
Anne MacDonald	70,073	28,467	–	–	98,540	98,540	–
Constantinos Miranthis	62,774	28,467	35,766	–	127,007	127,007	–
Lynn Pike	62,774	33,577	56,934	–	153,285	153,285	–

¹Benefits include life assurance and healthcare.

²Donna DeMaio was appointed as a Non Executive Director in November 2021.

Fees are paid in multiple currencies – 2021 fees were converted using £1: €1.16 and £1: \$1.38. 2020 fees were converted using £1: €1.13 and £1: \$1.37.

Membership of the Remuneration Committee

The Remuneration Committee members during the year were Caroline Foulger, Lynn Pike, Anne MacDonald, Thomas Hürlimann, Michael Goodwin, Constantinos Miranthis, Donna DeMaio (appointed November 2021) and Colin Keogh (Chairman).

Directors' shareholding and share interests

To align their interests with those of Hiscox shareholders, senior managers are expected to own a minimum number of Hiscox shares. Executive Directors are required to hold Hiscox shares valued at 200% of salary within five years of becoming an Executive Director. Bronek Masojada has over 20 years' service so his shareholding of 3,910% far exceeds the guidelines. Joanne Musselle has not yet been an Executive Director for five years, and her holding is 165%, using the closing share price on 31 December 2021. Aki Hussain has reached five years' service this year and his holding is 154%, using the closing share price on 31 December 2021. Aki Hussain has previously met the full shareholding guideline and has not sold any shares since this date. Following his appointment to Group Chief Executive Officer, the number of shares he is expected to hold will increase, reflecting his higher salary. The Committee expects the shareholding guideline to be met within three years of appointment.

There is a post-employment shareholding guideline for Executive Directors which will apply for a period of two years from stepping down from the Board. This will be set at the level of the in-employment shareholding guideline for one year (or the actual shareholding on stepping down from the Board if lower) and at half of this amount for the following year.

The interests of Executive and Non Executive Directors are set out below, including shares held by connected persons.

There have been no changes in the Director share interests between 31 December 2021 and 2 March 2022.

	31 December 2021 6.5p ordinary shares number of shares beneficial	31 December 2020 6.5p ordinary shares number of shares beneficial
Directors		
Executive Directors:		
Bronek Masojada	3,029,920	3,014,825
Aki Hussain	91,786	80,786
Joanne Musselle	98,449	40,798
Non Executive Directors:		
Robert Childs	1,213,162	1,208,502
Donna DeMaio*	0	0
Caroline Foulger	29,000	29,000
Michael Goodwin	12,678	12,678
Thomas Hürlimann	15,927	15,786
Colin Keogh	47,600	39,695
Anne MacDonald	40,251	39,893
Constantinos Miranthis	6,832	6,832
Lynn Pike	1,538	1,538

*Donna DeMaio was appointed as a Non Executive Director in November 2021.

Performance Share Plan (PSP)

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

Name	Number of awards at 1 January 2021	Number of awards granted	Number of awards lapsed	Number of awards exercised	Number of awards at 31 December 2021	Mid market price at date of grant £	Average market price at date of exercise £	Date from which released
Bronek Masojada	130,950	–	–	–	130,950	6.94		17-Mar-17 ¹
	117,006	–	–	–	117,006	8.82		13-Apr-18 ¹
	59,301	–	–	–	59,301	9.56		08-Apr-19 ¹
	83,250	–	(83,250)	–	–	14.88		06-Apr-21
	82,000	–	–	–	82,000	15.46		08-Apr-22
	156,000	–	–	–	156,000	7.00		15-May-23
	–	187,612	–	–	187,612	8.59		08-Apr-24
Aki Hussain	36,873	–	–	–	36,873	10.46		08-Apr-19 ¹
	58,000	–	(58,000)	–	–	14.88		06-Apr-21
	63,250	–	–	–	63,250	15.46		08-Apr-22
	120,500	–	–	–	120,500	7.00		15-May-23
	–	144,436	–	–	144,436	8.59		08-Apr-24
Joanne Musselle	32,361	–	–	(32,361)	–	5.68	8.44	02-Apr-16
	29,694	–	–	(29,694)	–	6.94	8.44	17-Mar-17
	24,750	–	–	(24,750)	–	8.82	8.44	13-Apr-18
	9,883	–	–	(9,883)	–	9.56	8.44	08-Apr-19
	30,000	–	(30,000)	–	–	14.88		06-Apr-21
	30,000	411	–	(12,411)	18,000	15.46	8.59	08-Apr-22 ²
	120,500	–	–	–	120,500	7.00		15-May-23
	–	144,436	–	–	144,436	8.59		08-Apr-24
Total	1,184,318	476,895	(171,250)	(109,099)	1,380,864			

¹Awards have vested but are unexercised.

²40% of the award vested in 2021. Remaining 60% will vest in 2022 subject to performance conditions.

Sharesave Schemes

The interests of Executive Directors under the Sharesave Schemes are set out on the next page:

The scheme offers a three-year savings contract where the exercise price of the options is calculated on an average share price over five days prior to the invitation date, with a 20% discount. Sharesave options are not subject to performance.

	Number of options at 1 January 2021	Number of options granted	Number of options lapsed	Number of options exercised	Number of options at 31 December 2021	Exercise price £	Market price at date of exercise £	Date from which exercisable	Expiry date
Bronek Masojada	778	–	(778)	–	–	11.56		01-May-21	31-Oct-21
	–	2,500	–	–	2,500	7.20		01-Jun-24	30-Nov-24
Aki Hussain	–	2,500	–	–	2,500	7.20		01-Jun-24	30-Nov-24
Joanne Musselle	1,557	–	(1,557)	–	–	11.56		01-May-21	31-Oct-21
	–	2,380	–	–	2,380	7.56		01-Dec-24	31-May-25
Total	2,335	7,380	(2,335)	–	7,380				

Payments for loss of office

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

Payments to past Directors

No payments were made to former Directors during the year.

Remuneration arrangements for the new Group Chief Executive Officer and new Group Chief Financial Officer

The Company announced on 22 July 2021 that Aki Hussain had been appointed as Group Chief Executive Officer with effect from 1 January 2022. His remuneration package, which is in line with the Directors' remuneration policy, was disclosed at the time and details are set out below.

- Basic salary of £750,000 per annum.
- No change in pension allowance (10% of salary, which is aligned to the pension allowance for the UK's workforce).
- No change to his annual bonus maximum opportunity (300% of salary) and Performance Share Plan award level (up to 250% of salary).

As this is an internal hire, there are no buy-outs of forfeited incentive awards associated with the appointment.

Aki's appointment followed a full and independent process led by the Nominations and Governance Committee, supported by a leading search firm. This involved a global search and the assessment of internal and external candidates. The Remuneration Committee took into account a number of different factors and reference points when setting the Group Chief Executive Officer's remuneration package, including the calibre and experience of Aki, evidenced by his performance as Group Chief Financial Officer, alongside his knowledge of the Hiscox Group, as well as considering market data, both for the UK and globally, with reference to our key international peers.

The Company announced on 21 December 2021, that Paul Cooper had been appointed as the Group Chief Financial Officer subject to regulatory approval. Details of his remuneration package, which is line with the Directors' remuneration policy, were disclosed at the time and are set out below.

- Basic salary of £525,000 per annum.
- Pension allowance of 10% of salary, which is aligned to the pension allowance for the UK's workforce.
- Annual bonus maximum opportunity of 300% of salary.
- Performance Share Plan award of up to 250% of salary per annum.

Paul will receive awards to compensate for remuneration arrangements forfeited on leaving his previous employer. These will remain subject to performance conditions where appropriate and mirror the form and time horizons of forfeited awards. Full disclosure will be made in the 2022 annual report on remuneration.

Remuneration arrangements for the outgoing Group Chief Executive Officer

Bronek Masojada stepped down as Group Chief Executive Officer and as an Executive Director of Hiscox Ltd with effect from 31 December 2021. Following his retirement from the Board, Bronek is continuing as an employee of Hiscox. Accordingly, he has received no loss of office payment in respect of his services as a Director. In his new role, he will provide strategic advice as a Director for key subsidiaries. This will enable Hiscox to continue to benefit from Bronek's considerable experience including over 20 years as Group Chief Executive Officer of the Company.

As he had served a full year as an Executive Director, Bronek Masojada was considered for an annual incentive award in respect of 2021, in line with other Executive Directors. Details of such payment and the deferral which applies are set out in this report. As Bronek will continue to be a Hiscox employee, he will retain (in accordance with the plan rules) his Performance Share Plan awards consisting of 156,000 shares (in respect of the 2020 award) and 187,612 shares (in respect of the 2021 award). These Performance Share Plan awards will remain subject to the existing vesting dates, performance conditions and holding periods. As an employee, he will retain his outstanding options under the Sharesave Scheme in accordance with the rules of the scheme. The post-employment shareholding requirement as set out in the Annual Report on Remuneration will apply for a period of two years from the date he steps down from the Board.

Implementation of remuneration policy for 2022

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.

There is no further salary increase for Aki Hussain following his appointment as Group Chief Executive Officer on 1 January 2022. Paul Cooper's annual salary as Group Chief Financial Officer is shown below, effective from his start date in 2022. From 1 April 2022, Joanne Musselle's salary will be increased by 2.2%, which is below the average UK employee increase.

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

Annual bonus

The maximum opportunity for the year ending 31 December 2022 will remain 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. The bonus for the incoming Group Chief Financial Officer will be pro-rata for 2022 for time in role. In determining the bonuses to be paid to Executive Directors, the Committee bases its judgements on both the performance of the Group and a robust assessment of individual performance. Bonuses will not be paid unless the Group's performance exceeds a given ROE threshold. This threshold and the ranges used to support the Committee's decision-making are considered to be commercially sensitive at this time and will be disclosed in the 2022 Directors' remuneration report, together with an overview of the individual objectives set and performance against these.

Performance Share Plan (PSP)

In line with our shareholder-approved remuneration policy, the maximum opportunity for the awards to be granted to the Executive Directors in 2022 will be 250% of salary. Awards will continue to be based on a three-year performance period followed by a two-year holding period.

For 2022, 60% of awards will continue to be based on stretching growth in NAV plus dividends targets, measured on a per-share basis with 40% based on relative TSR against a group of global insurance peers.

The Committee considers that growth in NAV continues to be a key metric for the PSP given that our strategy is built around the objective of generating long-term shareholder value and NAV is aligned with shareholder value creation. The targets for the 2022 awards are unchanged from those set out in the 2020 Directors' remuneration report and the Committee considers that they are very stretching targets in the current environment.

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

The risk-free rate (RFR) will be 0% for 2022.

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

Relative total shareholder return has been selected as a measure for the 2022 awards to complement the absolute NAV metric and is aligned to our strategy of generating long-term value for shareholders, benchmarking those returns versus our closest listed peers. The vesting schedule for the element of the award based on TSR is set out below.

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

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

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

Non Executive Director fees

The Non Executive Director fees which apply for 2022 are set out below. These remain unchanged from 2021, but may be subject to further review during 2022.

	2022 fees
Board Chairman and subsidiary services	£295,000
Basic fee	\$86,000
Additional fees for:	
Audit Committee Chair	\$26,000
Audit Committee member	\$16,000
Remuneration Committee Chair	\$18,000
Remuneration Committee member	\$9,000
Risk Committee Chair	\$17,000
Risk Committee member	\$10,000
Nominations and Governance Committee member	\$4,000
Senior Independent Director fee	\$17,000
Employee Liaison fee	\$10,000
Bermuda Committee fee	\$10,000

Other remuneration matters

External Non Executive Directorships

Executive Directors may not accept any external appointment that may give rise to a conflict of interest, and all external appointments require the consent of the Chairman. During the year, Bronek Masojada held Directorships on the Board of the Association of British Insurers and Pool Reinsurance Company Limited and was Chair of Policy Placement Limited. Bronek Masojada was remunerated £43,000 for his Directorship at Pool Reinsurance Company Limited. Aki Hussain held a Directorship at Visa Europe Limited and received a fee of £115,000. Joanne Musselle was remunerated £18,500 for her Directorship at Realty.

External advisors

The Committee received independent advice from Deloitte, who were appointed by the Committee in 2013 following a competitive tender process. Deloitte is a founder member of the Remuneration Consultants Group and, as such, voluntarily operates under its code of conduct. During the year, Deloitte's executive compensation advisory practice advised the Committee on developments in market practice, corporate governance and institutional investor views, and on the development of the Company's incentive arrangements. Total fees for advice provided to the Committee during the year were £96,200 based on a time and materials basis.

The Committee regularly reviews the advice it receives and is satisfied that this has been objective and independent. During the year Deloitte also provided the Company with other tax and consulting services.

In addition to the external advisors, the 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

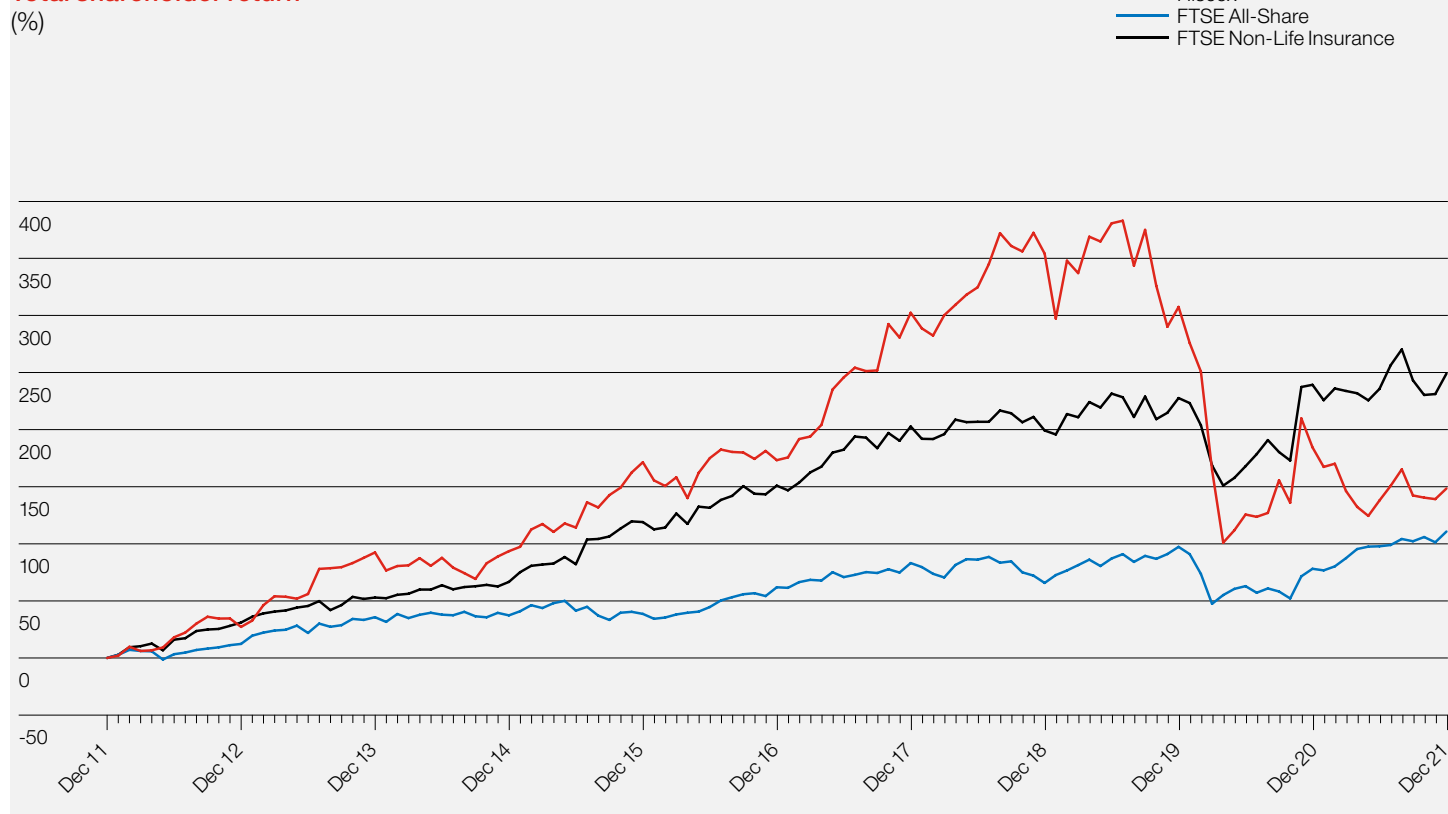
At the AGM on 13 May 2021, the annual report on remuneration received the votes below from shareholders. While the Director's remuneration policy was not voted on in the most recent AGM, results from the last policy vote are included below.

	Annual remuneration report (13 May 2021)	Remuneration policy (14 May 2020)
For	276,848,268	230,333,655
%	98.80%	95.86%
Against	3,364,342	9,949,668
%	1.20%	4.14%
Withheld	10,572	32,597
Total votes	280,223,182	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 2011 and 2021, Hiscox delivered total shareholder return of 148%.

Total shareholder return



Group Chief Executive Officer historic remuneration

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

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
CEO single figure of remuneration (£)	1,938,759	2,341,737	3,130,535	3,358,894	3,970,466	2,394,428	1,818,086	698,196	717,243	1,332,964
Annual bonus as percentage of current max	46	51	44	39	64	0	9	0	0	30
PSP vesting as percentage of maximum opportunity	39	53	100	100	100	85	47	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

The Remuneration Committee receives information on Group-wide remuneration policies and uses internal and external measures to assess the appropriateness of the remuneration policy and outcomes for Executive Directors. During the year, the Committee reviewed information on market levels of pay in our peer group, bonus pools split by business area, levels of share plan participation and pay ratios between Executives and average employees. No employees were furloughed and all were offered flexible working options to help juggle the demands of work life and home life during 2021. Our annual employee engagement survey gives all our employees the opportunity to provide honest feedback on how they feel about Hiscox. We also have an employee engagement network, led by our Employee Liaison and Non Executive Director, Anne MacDonald, where employees can provide feedback on a range of topics including pay, which we included as a specific agenda item this year.

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 2021 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 2021 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)
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 2021 quartile positions.

2021	P25 £	P50 £	P75 £
Salary	32,869	57,000	90,000
Total remuneration	39,344	67,442	108,927

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. The ratios have increased this year primarily as a result of annual bonuses being paid to all employees. The total remuneration of our most senior executives, including the Group Chief Executive Officer, is more highly weighted to variable remuneration, so in years when bonuses are paid, the ratios will increase. The Committee is comfortable that the pay ratio for 2021 aligns to the pay and progression policies for employees, in particular that pay is truly linked to performance and that individuals are appropriately motivated and rewarded according to their knowledge and seniority within the business.

Percentage change in remuneration of the Board Directors

The table below shows the percentage change in remuneration for each Executive and Non Executive Director, between the year ended 31 December 2020 and 31 December 2021. 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		
	Salary/fees	Benefits	Bonus ²	Salary/fees	Benefits	Bonus ²
All employees¹	4.3	5.9	(36.1)	1.8	(3.7)	147
Executive Directors:						
Bronek Masojada	2.8	2.7	N/A	2.2	1.9	N/A
Aki Hussain	2.8	(6.9)	N/A	2.2	3.3	N/A
Joanne Musselle ³	–	–	N/A	22.1	21.6	N/A
Non Executive Directors:⁴						
Robert Childs	1.7	(1.7)	–	–	10.4	–
Donna DeMaio ⁵	N/A	N/A	N/A	N/A	–	–
Caroline Foulger	(3.2)	–	–	(1.5)	–	–
Michael Goodwin	4.2	–	–	(0.7)	–	–
Thomas Hürlimann	(2.0)	–	–	(1.4)	–	–
Colin Keogh ⁶	(2.5)	–	–	32.4	–	–
Anne MacDonald	2.2	–	–	(0.7)	–	–
Constantinos Miranthis	(5.2)	–	–	5.0	–	–
Lynn Pike	(6.3)	–	–	(0.7)	–	–

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

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

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

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

⁵Donna DeMaio was appointed as a Non Executive Director in November 2021.

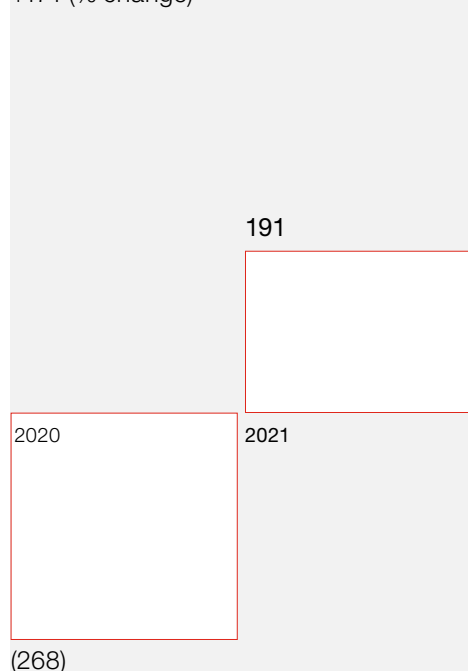
⁶Colin Keogh assumed the responsibility of Chair of a regulated subsidiary in 2021 and received an increased fee of £52,000.

Relative importance of the spend on pay

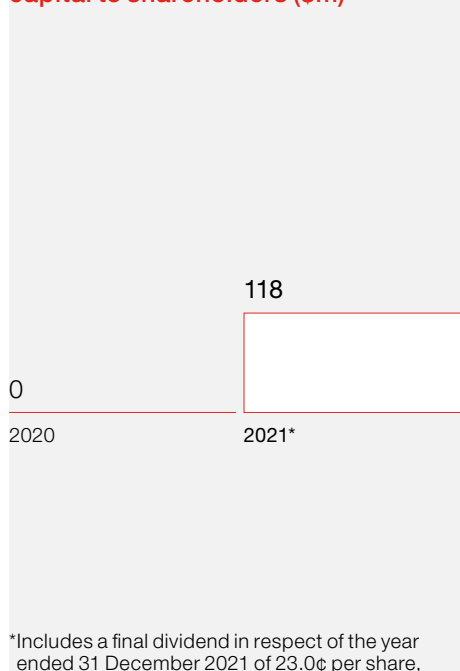
The charts below show the relative movement in profit, shareholder returns and employee remuneration for the 2020 and 2021 financial years. Shareholder return for the year incorporates the distribution made in respect of that year. Employee remuneration includes salary, benefits, bonus, long-term incentives and retirement benefits. Profit is the ultimate driver behind the performance metrics of the bonus and long-term incentive schemes. Profit before tax can be located on page 142.

Profit/(loss) before tax (\$m)

+171 (% change)

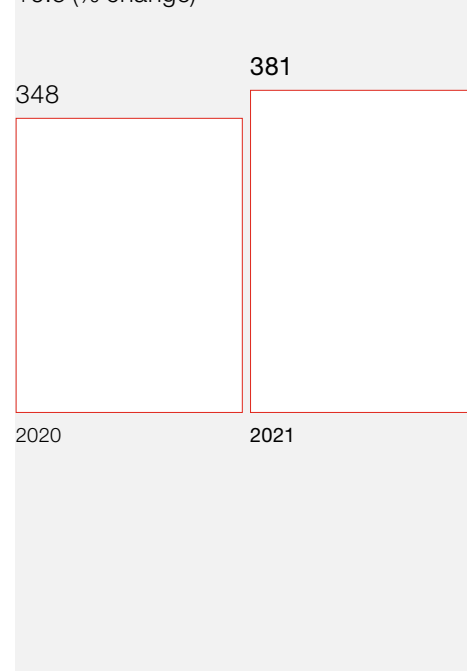


Dividend and return of capital to shareholders (\$m)



Total employee remuneration (\$m)

+9.5 (% change)



Remuneration policy

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

The policy was approved at the 2020 AGM and is replicated below, including how it will be implemented for Executive Directors in 2022 shown in italics. The original policy can be viewed in the 2019 Annual Report and Accounts at [hiscoxgroup.com](https://www.hiscoxgroup.com).

Future policy table

Executive Director remuneration

Base salary

Purpose and link to strategy	Fixed-pay elements enable the Company to be competitive in the recruitment market when looking to employ individuals of the calibre required by the business.
Operation	Base salary is normally reviewed annually, taking into account a range of factors including inflation rate movements by country, relevant market data and the competitive position of Hiscox salaries by role. Individual salaries are set by taking into account the above information as well as the individual's experience, performance and skills, increases to salary levels across the wider Group and overall business performance. By exception, an individual's salary may be amended outside of the annual review process.
Maximum potential value	The salaries for current Executive Directors which apply for 2022 are set out on page 108. Executive Directors' salary increases will normally be in line with overall employee salary increases in the relevant location. Increases above this level may be considered in other circumstances as appropriate (for example, to address market competitiveness, development in the role, or a change in role size, scope or responsibility).
Performance metrics	Individual and business performance are taken into account when setting salary levels.
Application to broader employee population	Process for review of salaries is consistent for all employees.

Future policy table

Executive Director remuneration

Benefits (including retirement benefits)

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

Future policy table

Executive Director remuneration

Annual bonus

Purpose and link to strategy

To reward for performance against the achievement of financial results over the financial year and key objectives linked to the strategic priorities.

To provide a direct link between reward and performance.

To provide competitive compensation packages.

Operation

Executive Directors participate in profit-related bonus pools.

Bonus pools are calculated at a business unit level and for the Group as a whole on the basis of Group financial results. For 2022, the bonus pool will be funded by a set percentage of profits on achievement of a hurdle rate of ROE. The bonus for prior years was determined on a similar basis. Further detail is set out on page 102.

For Executive Directors, individual allocations from the pool are determined by the Remuneration Committee based on a judgement of various factors including:

- size of the Group bonus pool;
- results of business area (where relevant);
- individual performance, including non-financial and strategic factors; and
- consideration of risk.

Amounts are paid in accordance with the bonus deferral mechanism described on page 117. 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 121.

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 a predetermined hurdle, payouts will be nil.

The total of individual bonuses paid to Executive Directors for a year will not normally exceed 15% of the total pool. If the number of Executive Directors increased in the future, this percentage would be adjusted as required.

Performance metrics

Performance is measured over one financial year.

Bonus pools are determined based on financial performance against a hurdle (reviewed annually). Performance at or above this hurdle is rewarded and where performance falls below this hurdle, payouts will be nil. Financial performance is therefore the main determinant of overall bonus payouts.

In determining the level of bonuses awarded, the Committee also considers a range of other factors including the achievement of stretching personal and strategic objectives during the relevant year together with a consideration of risk, ensuring a robust assessment of performance.

Application to broader employee population

The operation of the annual incentive is consistent for the majority of employees across the Group.

Arrangements tailored to roles and responsibilities are operated for selected positions. Bonuses for more junior employees are calculated using a more formulaic approach. Further details are set out on page 102.

Future policy table

Executive Director remuneration

Bonus deferral

Purpose and link to strategy	To encourage retention of employees.	
	To facilitate and encourage share ownership in order to align senior employees with Hiscox shareholders.	
Operation	Larger bonuses are normally deferred over a three-year period and paid subject to continuing service as explained in the table below.	
	Deferral points are determined based on the currency in which the Executive Director’s salary is paid and are normally as follows:	
	Bonus of £50,000, €75,000, \$100,000, and below	Paid shortly after the end of the financial year in which the bonus was achieved.
	Bonus above £50,000 and below £100,000	£50,000, €75,000, \$100,000, paid shortly after the end of the financial year in which the bonus was achieved.
	Bonus above €75,000 and below €150,000	
	Bonus above \$100,000 and below \$200,000	Balance of bonus split 50% to be paid after year two (24 months after the start of the bonus year), and 50% after year three (36 months after the start of the bonus year).
	Bonus above £100,000, €150,000, \$200,000	50% of bonus paid shortly after the end of the financial year following the announcement of results.
		Balance of bonus split 50% to be paid after year two, and 50% after year three.
	Participants are able to (subject to any local tax/legal/regulatory restrictions) draw deferred bonuses early in certain circumstances in order to enable the acquisition of Hiscox shares. Such amounts remain subject to continued employment.	
The Remuneration Committee can agree to early payment of deferred bonuses to Executive Directors on an exceptional basis at their discretion.		
Deferred awards are subject to malus and clawback provisions as described in the notes to the policy table on page 121.		
Maximum potential value	In accordance with the operation of the annual bonus.	
Performance metrics	In accordance with the operation of the annual bonus.	
Application to broader employee population	Approach is consistent for all employees across the Group who are awarded a sizeable bonus.	

Future policy table

Executive Director remuneration

Performance Share Plan (PSP)

Purpose and link to strategy	To motivate and reward for the delivery of long-term objectives in line with business strategy. To encourage share ownership among participants and align interests with shareholders. To provide competitive compensation packages for senior employees.
Operation	Awards are granted under, and governed by, the rules of the PSP as approved by shareholders from time to time. Share awards (typically structured as either conditional awards or nil cost options) are made at the discretion of the Remuneration Committee. Awards normally vest after a three-year period subject to the achievement of performance conditions. An additional holding period, which is currently two years, may also apply. Further details are set out on pages 104 to 106. Awards are generally subject to continued employment; however, awards may vest to leavers in certain scenarios (for example, 'good' leaver circumstances). Dividends (or equivalents) may accrue on vested shares prior to release. Awards are subject to malus and clawback provisions as described in the notes to the policy table on page 121.
Maximum potential value	Maximum annual grant of up to 250% of salary in respect of any one financial year.
Performance metrics	The performance conditions for awards are set to align with the long-term objectives of the Company. The Committee reviews the targets prior to each grant to ensure that they remain appropriate. Currently, the performance measures are linked to the achievement of growth in net asset value plus dividends, measured on a per-share basis, over the performance period. <i>For 2021 and 2022 awards, an additional measure of relative TSR will also apply.</i> For delivery of the threshold hurdle, up to 20% of the relevant award will vest. For full vesting, the stretch hurdle needs to be met in full. The discretions available to the Committee in assessing the achievement of the performance target are as set out in the notes to the policy table on page 121. Where the Committee considers it appropriate to do so, under the plan rules the Committee is able to modify performance criteria for outstanding awards on the occurrence of certain events (for example, major disposal).
Application to broader employee population	Participation in this plan is restricted to Executive Directors and other senior individuals.

Future policy table

Executive Director remuneration

Shareholding guidelines

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

Future policy table

Non Executive Director remuneration

General approach

The total aggregate fees payable are set within the limit specified by the Company's Bye-laws. The fees paid are determined by reference to the skills and experience required by the Company as well as the time commitment associated with the role. The decision-making process is informed by appropriate market data. Non Executive Directors are not eligible for participation in the Company's incentive plans. Travel and other reasonable expenses incurred in the course of performing their duties are reimbursed to Non Executive Directors (including any tax thereon where these are deemed to be taxable benefits). Non Executive Directors are included on the directors and officers' indemnity insurance.

The current fees payable to Non Executive Directors are set out on page 105.

Chairman

The Chairman typically receives an all-inclusive fee in respect of the role. In addition to his fees the Chairman may be provided with incidental benefits, for example, private healthcare and life assurance (including any tax thereon where these are deemed to be taxable benefits). The remuneration of the Chairman is determined by the Committee.

Non Executive Directors

Non Executive Directors receive an annual fee in respect of their Board appointments together with additional compensation for further duties (for example, Board Committee membership and chairmanship). The fees for the Non Executive Directors (excluding the Chairman) are determined by the Governance and Nominations Committee.

Notes to the policy table

Performance measures, target setting and assessment

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

The Company operates a bonus pool approach for the annual incentive. This ensures that both individual bonus levels and overall spend are commensurate with the performance of the Company. The Committee applies judgement based on a range of factors (as described in the table on page 116) to ensure that outcomes for Executive Directors are based on performance in-the-round rather than on a formulaic outcome. The profit pool approach currently used ensures that overall bonus amounts are aligned to the performance of the Company and remain appropriate and affordable.

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

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

the Committee has scope to consider any such factors as it deems relevant.

Detailed provisions

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

The Committee may continue to satisfy remuneration payments and payments for loss of office (including the exercise of any discretions available to the Committee in connection with such payments) where the terms of the payment were:

- agreed before 15 May 2014 when the first approved remuneration policy came into effect;
- agreed before the policy set out above came into effect, provided that the terms of the payment were consistent with the shareholder-approved Directors' remuneration policy in force at the time they were agreed; or
- agreed at a time when the relevant individual was not a Director of the Company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a Director of the Company.

For these purposes, such payments include the Committee satisfying awards of variable remuneration.

Malus and clawback provisions

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

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

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

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

Recruitment policy

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

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

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

On initial appointment (including interim Director appointments) the maximum level of variable remuneration (excluding any buy-outs) is capped at the maximum level set out in the policy table on pages 114 to 120. 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 by the Director by giving notice of six months.

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

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

Policy on payment for loss of office

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

1. Notice period of up to 12 months

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

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

2. Bonus payment for the financial year of exit

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

3. Release of any deferred bonuses

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

4. Unvested Performance Share Plan awards

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

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

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

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

5. Change of control

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

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

Consideration of employment conditions elsewhere

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

Salary reviews are applied consistently throughout the Group, ensuring employees are paid fairly in line with their responsibilities, experience and the market rate for the role. All employees (including Executive Directors) are encouraged to become Hiscox shareholders through our SAYE schemes. Employees participate in a discretionary profit-related bonus scheme, with the overall level of payout based primarily on financial performance. From 2021, a separate individual and strategic element has been introduced for employees below Board level to incentivise and reward individual contribution and delivery of key strategic objectives.

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

While the Committee did not consult directly with the broader workforce on the remuneration policy for Executive Directors, we have introduced a process by which employee views are gathered on a range of topics and presented to the Board.

The Remuneration Committee also receives an update on the broader workforce remuneration policies and practices during the year which informs the Committee's consideration of the policy for Executive Directors.

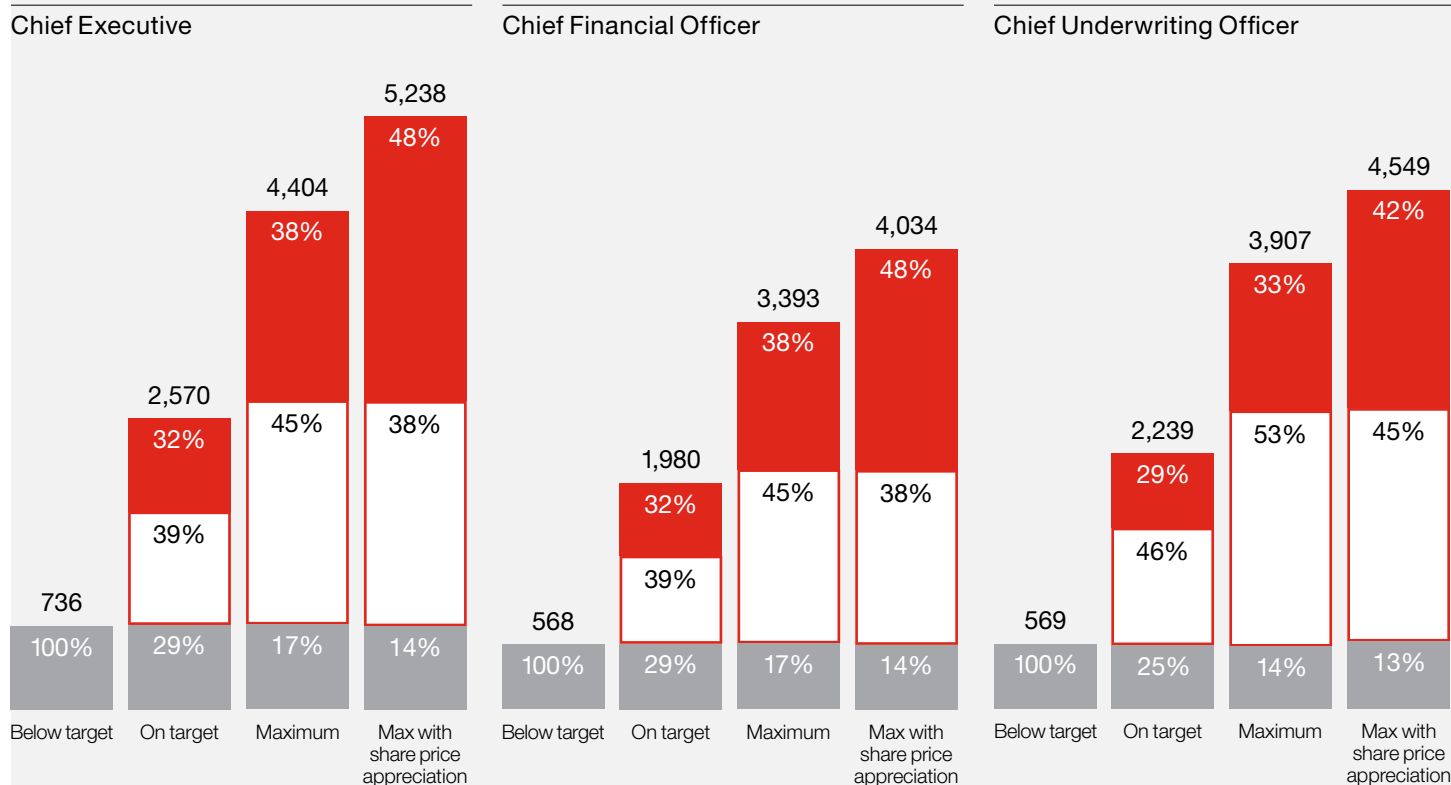
Consideration of shareholder views

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

The Committee consulted with major shareholders during 2019 and took shareholders' feedback into account when finalising the revised 2020 policy. In anticipation of introducing TSR as an additional performance metric for the PSP in 2021, the Committee wrote to major shareholders, ISS, Glass Lewis and the Investment Association. All responses received were positive and no major concerns were raised.

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

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



The charts above have been compiled using the following assumptions.

Fixed remuneration

Fixed reward (base salary, benefits and retirement benefit).

- Salary with effect from 1 April 2021.
- Benefits as received during 2021, as disclosed in the Executive Director remuneration table on page 100.
- Retirement benefit as received during 2021, as disclosed in the Executive Director remuneration table on page 100.

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 118. 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 Vanessa Newbury
HR Director and Head of Recruitment

Recruitment driver

The pandemic has caused havoc in the recruitment market, so attracting and retaining staff has become more important than ever.

Vanessa Newbury joined Hiscox in 2016 as Interim Head of HR for a nine-month maternity cover and has been here ever since. Her role now also involves leading a recruitment team, a function that prior to her appointment had been outsourced to agencies.

Q: How did you come to join Hiscox?

A: I'd worked in luxury retail for most of my career, so insurance was completely new to me. I hadn't heard of Hiscox – I had to Google who they were. I came for nine months and it was always with a view to moving on afterwards and doing something else. But I never left. It really, really surprised me. Genuinely, I absolutely love it. I'd never considered the global impact an insurance company can have, or how many bright, smart people I'd get to work with. I think that's one of the challenges we have in attracting candidates into insurance: lots of people have the same misconceptions as me.

When I started, we didn't have our own recruitment team. I was asked to stay on and build that team, with the proviso that we save 200% of our costs by not using agencies. In fact, we save significantly more than that.

Q: What other benefits are there to managing recruitment internally?

A: A big one is having control of the recruitment brand. Because our recruiters work for Hiscox, they can talk very authentically about what it's like here. We're an organisation where you're empowered to get on with things. You're not hand-held, you're not micromanaged. If you're someone who likes a step-by-step process and someone watching over you the whole time, we're probably not the organisation for you. We try to be as honest as we can about that.

The fact that we understand the business and know what our hiring managers want is also important. My team have good relationships with business stakeholders and

know the markets they operate in. That helps us get ahead of the curve, carry out talent mapping for roles that might need a pipeline of talent, and keep candidates warm for when a job does come up.

Q: How was 2021 for recruitment?

A: Really tough. I think if you'd asked me 12 months ago what the market would look like as we came out of lockdown, I'd have said: "Loads of people looking for employment, and no jobs". It's been the opposite. It's a massively candidate-driven market, swamped with opportunities and with very few candidates. We've never seen a market like it. Applications are down by around 35% on pre-pandemic levels.

This is my take: I think a lot of companies put recruitment on hold in 2020. Those vacancies have now opened, but people are still reluctant to move. There's still a real nervousness around what's going to happen, so people are wary of leaving a settled job and walking into something new. It's not just us experiencing that. It's lots of other companies as well – and it's global.

Q: What have you had to do to confront those challenges?

A: We've found new partnerships with specialist agencies for some niche roles. We've played around with job descriptions. We've had to refine our messaging – redefining our employment proposition and how we sell the Hiscox brand. Mainly, though, the team have just had to work a lot harder to fill roles. We've had to go out and headhunt a lot more than in the past.

Q: Presumably it's now even more essential that the business retains people?

A: Absolutely. We know that our people are in demand. For example, we develop and grow very good underwriters, so we've been targeted by a lot of the start-ups. This does

mean we have vacancies to fill, but it is manageable and our recruitment team is really stepping up to the challenge of finding the best people for the roles we have.

Now, I think the biggest HR challenge is employee engagement, which has been falling. We need to inspire and excite our people. That's a major part of what Aki is doing now, and he talks so passionately about the opportunities that Bronek has left us with for the next ten years. The biggest thing we've got to do is instil that belief in our people and keep them with us on the journey.

Q: How do you see the human value being applied at Hiscox?

A: I think Hiscox is a very caring organisation. It's a very caring organisation. It expects the very highest standards, but people are treated very, very fairly. For example, if you're not performing, it's important that you know, but when and how you're told is what matters.

Q: During the lockdowns of the past two years, what did you miss most about being around other people?

A: It's those informal conversations. You can't pick up on the chatter, you can't hear someone talking about something over your shoulder and be like: 'what was that?' I miss that. It's hardest for the new starters. I had a couple of people join the team. Working with someone for 18 months who you've never met face to face is really tough. We all worked hard to keep the team connected, we probably had more meetings than ever just so we could check in and make sure everyone was okay, but it's not the same as doing it in person.



Directors' report

The Directors have pleasure in submitting their Annual Report and consolidated financial statements for the year ended 31 December 2021.

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 20 to 33, 38 to 41, 142 to 206 and 208 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 20 to 33. The Chief Executive's report also describes the main trends and factors likely to affect the future development, performance and position of the Company's business. A description of the Company's strategy and business model is set out on pages 8 to 9. A description of the principal risks and uncertainties and how they are managed or mitigated can be found in the key risks section on page 10 and the risk management section on pages 38 to 41. In addition,

note 3 to the consolidated financial statements provides a detailed explanation of the principal risks which are inherent to the Group's business and how those risks are managed.

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

Details of how the Company has applied the principles set out in the Code and the extent to which it has complied with the provisions of the Code are set out on pages 76 to 81.

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 can be found on page 10.

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 69 to 75 in this report.

Diversity

The diversity of the business is outlined in the Nominations and Governance Committee report on pages 82 to 88.

Financial results

The Group delivered a pre-tax profit for the year of \$190.8 million (2020: loss of \$268.5 million). Detailed results for the year are shown in the consolidated income statement on page 142.

Going concern

A review of the financial performance of the Group is set out in the Chief Executive's report on pages 20 to 33. The financial position of the Group, its cash flows and borrowing facilities are included in the capital section on pages

36 to 37. 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 further losses from business interruption claims and reinsurance recoveries, economic downturn/shocks 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.

After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence over a period of at least 12 months from the date of this report. For this reason, the Group

continues to adopt the going concern basis in preparing the consolidated financial statements.

Longer-term viability statement

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

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

Against this background, the Directors have assessed the prospects of the Group in accordance with Provision 31 of the UK Corporate Governance Code 2018, with reference to the Group's current position and prospects, its strategy, risk appetite and key risks, as detailed in the key risks section on page 10 and the risk management section on pages 38 to 41, 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 2024 and is underpinned by management's 2022-2024 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. Stresses to liquidity include a 1-in-200 catastrophic event with the impact on Group funding forecast to December 2023. These allow the Board to review and challenge the risk management strategy and consider potential mitigating actions. Based on these assessments, the Board confirms that it has reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three-year assessment period. 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 8 to 9 for further details of the business model and longer-term prospects.

Dividends

The Board took the decision to resume paying dividends with the 2021 interim results, following a 2020 financial loss and uncertainty arising from Covid-19. An interim dividend of 11.5 cents per share was paid on 22 September 2021 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 2021 (subject to shareholder approval) of 23.0 cents per share, to be paid on 13 June 2022 to shareholders on the register at 6 May 2022.

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 2021 Annual General Meeting to purchase in the market up to 10% of the Company's issued ordinary shares. No shares have been bought back under this authority as at the date of this report.

Directors

The names and details of all Directors of the Company who served during the year and up to the date of this report are set out on pages 62 to 65. Details of the Chairman's professional commitments are included in his biography on page 62. The Bye-laws of the Company govern the appointment and replacement of Directors. In accordance with the Code, the Directors will submit themselves for re-election at the Annual General

Major interests in shares

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

	Number of shares	% of issued share capital as at 31 January 2022*
Fidelity Investments	33,141,635	9.57
Capital Research Global Investors	25,947,285	7.49
Columbia Threadneedle Investments	18,115,429	5.23

*There were 346,464,055 shares in issue (excluding Treasury shares) as at 31 January 2022.

As at 1 March 2022, 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 (page 104)
Allotment of shares for cash pursuant to employee share schemes	Note 22 to the consolidated financial statements on employee share schemes (page 189)

Meeting. Biographical details of the Directors are set out on pages 62 to 63, as are the reasons why the Board believes their contribution is (and continues to be) important to the Company's long-term sustainable success. This information will also be set out in the circular which will accompany the notice of Annual General Meeting.

Major interests in shares

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

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 (2020: \$nil). Information concerning the Group's charitable activities is contained in the environmental, social and governance (ESG) section on pages 44 to 53 and at hiscoxgroup.com/responsibility.

Climate-related matters

In preparing and signing off this report, the Board has considered the relevance of material climate-related matters. Climate-related matters are regularly discussed by the Board, and most recently this included Board approval of a new ESG exclusions policy for underwriting and investments and new greenhouse gas targets for the Group. The Company also aligns its climate-related activities to the TCFD framework, details of which can be found on pages 54 to 59.

Power of Directors

The powers given to the Directors are contained in the Company's Bye-laws and are subject to relevant legislation and, in certain circumstances (including in relation to the issuing and buying back by the Company of its shares), approval by shareholders in a general meeting. At the Annual General Meeting in 2021, 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 2022.

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 Annual General Meeting, to be held on 12 May 2022, will be contained in a separate circular to be sent to shareholders. The deadline for submission of proxies is 48 hours before the meeting.

By order of the Board
Marc Wetherhill
Company Secretary

Chesney House
96 Pitts Bay Road
Pembroke HM 08
Bermuda
2 March 2022

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, in all material respects, 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 2 March 2022.

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.
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4th Floor, 16 Church Street
Hamilton HM 11
Bermuda

Stockbrokers
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London EC2M 2PP
United Kingdom

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

Q&A:

with Robert Caton

Director of Underwriting Risk and Reinsurance

Model citizen

Last year's high frequency of natural catastrophe events and the ongoing impact of the pandemic make abundantly clear the importance of testing and adapting the Group's risk models.

Since joining Hiscox in 1999, Rob Caton has led a number of analytics and modelling teams and is now responsible for underwriting risk across the Group, including natural catastrophe risk, casualty risk, cyber risk and the outwards reinsurance purchasing needed to hedge those risks.

Q: In 2021, what were the major areas of focus for you and your team?

A: Covid-19 has, of course, been a really meaningful issue for our area and a major contributor to our workload as we reassess our view of pandemic risk after such an unprecedented event. Then on the natural catastrophe side of things, we've seen an ongoing pattern of increased frequency of events and sources of loss from non-typical areas. One area of particular focus has been the question of 'social inflation' in property catastrophe claims. This relates to practices involving third parties who seek to

inflate property claims for theirs and their client's benefit. This is particularly evident in Florida where the impact has been recognised by legal reform. Prior to these reforms, we captured these increased costs in our 'view of risk' which drives our pricing, risk, and capital. While legislative changes improve the situation, the risk doesn't fully go away as the same motivations exist albeit with more limited scope to increase claims costs. Our job, then, has been to understand the implications and ensure our pricing models and risk assessment tools represent the best view of the risk.

Q: What is your approach to modelling climate risk?

A: I first took responsibility for the natural catastrophe team in 2005. That was a seminal year for us, with Hurricanes Katrina, Rita and Wilma coming hot on the heels of Charley, Frances, Ivan and Jeanne in the previous year – it certainly caused us to reflect on our approach. There was a sense in the industry that

frequent major landfalling hurricanes would happen each year and 'something had changed'. The years since have seen both sustained quiet and busy periods. The relatively quiet period between 2012 and 2017 had some commentators talking about a 'hurricane drought'. What this teaches us is to look past the noise and try to identify the pattern.

The climate models we use are provided by third parties who are better placed than we are to build them. They've got even more PhDs on the job than us, and more access to data. Also, by using third-party models, you get the 'herd benefit' – if you've got 100 organisations all licensing a model, and there's something in there that doesn't make sense, at least one company is likely to find it and then you all benefit.

While these models are invaluable in our approach and provide the foundation for much of our thinking, it is important that where we believe we understand parts of our risk better than we adapt the results. This led to us building a research team and developing the Hiscox view of risk. Examples include incorporating new research and academic literature – particularly relevant in a changing climate, but the biggest impacts come from our close analysis of claims data. We've had lots of events, particularly over the past few years, that have enabled us to build out this Hiscox view of risk, as ultimately each new claim represents a new data point for our work.

Q: How do you assess whether a heightened frequency of events constitutes an ongoing change to the risk profile?

A: When it comes to natural catastrophes, the noise is often bigger than the signal. What we have to decide is whether the signal is strong enough. If you're looking back at three years of an unusually

high frequency of hurricanes, are they going to stay that frequent or drop back down next year? Is what you're seeing a pattern of climate clustering, or a climate trend? We have to disentangle that into something that can drive our business decisions. These are not pieces of academic interest for us, they're things that have real commercial impact – if we believe the risk is higher, we have to reflect that in our pricing, our risk appetite, our capital or our reinsurance strategy, so we have to be very confident that we can justify moving in that direction. We do the work ourselves, but we also talk to other parties who do this for a living. We want the best information to make the best decisions. To support this work, we have developed the Hiscox climate change framework. This allows us to assess for each peril the confidence in the climate change signal, the magnitude of the impact and also the materiality of the peril to Hiscox. It allows us to focus our research efforts where it will most influence our decisions. Recent publications from the IPCC and COP26 have been instructive in this assessment.

Q: How do you see the human value being applied at Hiscox?

A: Recently, I think it's been most visible in the warmth and enjoyment that people have got from being back together in the office. Our teams have worked incredibly effectively remotely, they responded to the challenge, they really stepped up, but there's been an obvious energy and buzz that comes from people seeing each other in person and having proper conversations. It's great to see, and I think it reflects really well the human nature of this business.



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 2021, 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 2021;
- the consolidated statement of comprehensive income for the year ended 31 December 2021;
- the consolidated balance sheet as at 31 December 2021;
- 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.

Audit scope

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

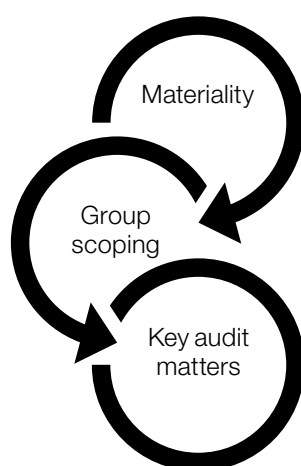
How we tailored our group audit scope

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

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

Our audit approach

Overview



— Overall Group materiality: \$35 million, which represents approximately 0.8% of the gross premiums written for the year ended 31 December 2021

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

- Valuation of gross claims liabilities.
- Valuation of reinsurance claims recoverable.

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, 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:

- Hiscox Dedicated Corporate Member Syndicate no. 33;
- Hiscox Dedicated Corporate Member Syndicate no. 3624;
- Hiscox Insurance Company Limited; and
- the parent company, Hiscox Ltd (including consolidation).

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

In establishing the overall approach to the Group audit, we determined the type of work that needed to be performed at the reporting units by us, as the Group engagement team, or by the component audit teams within the PwC United Kingdom, PwC United States and PwC Bermuda firms operating under our instruction. Where the work was performed by component audit teams, we determined the level of involvement we needed to have in the audit work at those reporting units to be able to conclude whether sufficient appropriate audit evidence had been obtained.

The Group engagement team had regular interaction with the component teams during the audit process. The engagement leader and senior members of the Group engagement team reviewed in detail all reports with regards to the audit approach and findings submitted by the component auditors. This together with additional procedures performed at the Group level, as described above, gave us the evidence we needed for our opinion on the consolidated financial statements as a whole.

As part of our audit, we made enquiries of management (both within and outside of the Group's finance function) in order to understand the extent of the potential impact of climate change risks and opportunities, on the Group's consolidated financial statements. As part of this, we reviewed minutes of meetings of the Group's Sustainability Steering Committee, submissions to regulators and read the Group's climate report 2021. We also assessed the risk in respect of the climate change commitments made by the Group and how these may affect the consolidated financial statements and the audit procedures that we perform. We assessed the risks of material misstatement to the consolidated financial statements as a result of climate change and concluded that for the year ended 31 December 2021, there was no impact on our key audit matters or our assessment of the risk of material misstatement.

Materiality

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

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

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% of overall materiality, amounting to \$26 million for the consolidated financial statements.

In determining performance materiality, we considered a number of factors – the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls – and 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 \$1.7 million, as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Materiality

Overall Group materiality

\$35 million

How we determined it

Approximately 0.8% of gross premiums written for the year ended 31 December 2021.

Rationale for the materiality benchmark applied

In determining our materiality, we have considered financial metrics which we believe to be relevant to the primary users of the consolidated financial statements. We concluded 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 to the levels of external reinsurance purchased by the Group.

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.

'The impact of Covid-19 on the Group' and 'assessment of the carrying value of certain finite lived intangible assets', which were key audit matters last year, are no longer included as key audit matters for the current year. With respect to 'the impact of Covid-19 on the Group', the uncertainty caused by Covid-19 on inwards (re)insurance exposures have been incorporated into the 'valuation of gross claims liabilities' and the 'valuation of reinsurance claims recoverable' key audit matters. With respect to 'assessment of the carrying value of certain finite lived intangible assets' the relative risk of impairment has reduced over the prior year. Finally, we have bifurcated the prior year key audit matter entitled 'valuation of gross incurred but not reported (IBNR) loss reserves and the associated reinsurers share of IBNR loss reserves' into two separate key audit matters entitled 'valuation of gross claims liabilities' and 'valuation of reinsurance claims recoverable'.

Key audit matters

Key audit matter

1. Valuation of gross claims liabilities

Refer to note 2.13, 2.21 and 23 to the consolidated financial statements for disclosures of related accounting policies and balances.

As at 31 December 2021, 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 base 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, we focused on this area as the valuation can be materially impacted by numerous factors including:

- the underlying volatility attached to estimates for certain classes of business, where small changes in assumptions can lead to large changes in the levels of the estimate held, 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 that key assumptions in respect of natural catastrophes and other large claims losses (specific claims reserves), including those reserving estimates associated with classes of business exposed to claims and potential claims arising from Covid-19, are inappropriate. There is significant judgement involved in these loss estimates, particularly as they are often based on limited data.

How our audit addressed the key audit matter

We have understood, evaluated and tested the design and operational effectiveness of key controls in place in respect of the valuation of insurance claims liabilities.

In addition, we performed the following procedures:

- 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 including those related to Covid-19; 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 we used PwC actuarial specialists, where appropriate. Our 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 30 September 2021 and performed a roll-forward test to 31 December 2021;
- 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, we 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 we obtained.

Key audit matters

Key audit matter	How our audit addressed the key audit matter
2. Valuation of reinsurance claims recoverable <i>Refer to note 2.13, 2.21 and 23 to the consolidated financial statements for disclosures of related accounting policies and balances.</i> 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 2021, claims recoverable are \$3.5 billion in the consolidated financial statements. For the year ended 31 December 2021, 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 loss portfolio transfer (LPTs) contracts with external counterparties during the year. Such transactions require judgement on the accounting for the contracts, in particular the degree of risk transfer and the presentation of the amounts in the consolidated financial statements.	We have understood, evaluated and tested the design and operational effectiveness of key controls in place in respect of the valuation of reinsurance claims recoverable. In addition, we performed the following procedures: — tested the accuracy of application of reinsurance contract terms; — tested the netting down of reinsurance on gross paid, outstanding, and specific claims reserves; — for the Covid-19-related recoverables, inspected communications with reinsurers where available and assessed management's estimation on the recoverability of the reinsurers' share of Covid-19 losses; — for those classes of business selected for independent projections on a gross basis, we used our actuarial specialists to develop independent point estimates for the associated reinsurer's share of IBNR loss reserves; — for the remaining classes of business where our actuarial specialists performed key-indicator testing on a gross basis, they performed testing on the associated reinsurer's share of IBNR loss reserves; — evaluated management's assessment of risk transfer for each of the LPT contracts executed in the year using our actuarial specialists; and — assessed management's accounting policy for retroactive reinsurance contracts which has been applied to the LPT contracts. The results of our procedures indicated that the valuation of reinsurance claims recoverable was supported by the evidence we obtained.

Chapter 1	4	Chapter 2	16	Chapter 3	62	Chapter 4	94	Chapter 5	128	Chapter 6	134
Performance and purpose		A closer look		Governance		Remuneration		Shareholder information		Financial summary	
										Independent auditor's report	

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 Task Force on Climate-related Financial Disclosures (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 control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation; and
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on other legal and regulatory requirements

Directors' remuneration

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

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

Corporate governance statement

Under the United Kingdom's Listing Rules we are required to review the part of the Corporate Governance Statement relating to the provisions of the UK Corporate Governance Code (the Code) specified for auditor review and the Directors have requested that we also review their statements on going concern and the longer-term viability of the Group as required for UK registered companies with a premium listing on the London Stock Exchange. Our additional responsibilities with respect to the Corporate Governance Statement and the statements on going concern and the longer-term viability of the Group as other information are described in the Other information section of this report. Based on the work undertaken as part of our audit, we have 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 we have nothing material to add or draw attention to in relation to:

- the Directors' statement as to 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' statement as to whether they have a reasonable expectation that the Group 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.

Our 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 statements are consistent with the knowledge and understanding of the Group and its environment obtained in the course of the audit.

Other matter

In due course, 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 Arthur Wightman.

PricewaterhouseCoopers Ltd.
Chartered Professional Accountants
Bermuda
2 March 2022

Consolidated income statement

For the year ended 31 December 2021

	Note	2021 \$m	2020 \$m
Income			
Gross premiums written	4	4,269.2	4,033.1
Outward reinsurance premiums	4, 23.2	(1,314.2)	(1,282.7)
Net premiums written		2,955.0	2,750.4
Gross premiums earned		4,246.9	4,071.2
Premiums ceded to reinsurers		(1,327.0)	(1,319.0)
Net premiums earned	4, 23.2	2,919.9	2,752.2
Investment result	4, 7	51.2	197.5
Other income	4, 9	56.8	50.2
Total income		3,027.9	2,999.9
Expenses			
Claims and claim adjustment expenses	23.2	(2,185.5)	(2,966.5)
Reinsurance recoveries	23.2	755.1	1,043.8
Claims and claim adjustment expenses, net of reinsurance	4, 23.2	(1,430.4)	(1,922.7)
Expenses for the acquisition of insurance contracts	15	(1,017.9)	(1,002.9)
Reinsurance commission income	15	283.2	289.0
Operational expenses	4, 9	(622.7)	(573.0)
Net foreign exchange gain/(loss)		0.7	(14.5)
Total expenses		(2,787.1)	(3,224.1)
Results of operating activities		240.8	(224.2)
Finance costs	4, 10	(50.8)	(44.0)
Share of profit/(loss) of associates after tax	4, 14	0.8	(0.3)
Profit/(loss) before tax		190.8	(268.5)
Tax expense	25	(1.3)	(25.2)
Profit/(loss) for the year (all attributable to owners of the Company)		189.5	(293.7)
Earnings per share on profit/(loss) attributable to owners of the Company			
Basic	28	55.3¢	(91.6)¢
Diluted	28	54.7¢	(90.6)¢

Consolidated statement of comprehensive income

For the year ended 31 December 2021

	Note	2021 \$m	2020 \$m
Profit/(loss) for the year		189.5	(293.7)
Other comprehensive income			
Items that will not be reclassified to the income statement:			
Remeasurements of the net defined benefit obligation	27	31.6	(38.0)
Income tax effect		(3.4)	8.8
		28.2	(29.2)
Items that may be reclassified subsequently to the income statement:			
Exchange (losses)/gains on translating foreign operations		(18.5)	55.5
		(18.5)	55.5
Other comprehensive income net of tax		9.7	26.3
Total comprehensive income for the year (all attributable to owners of the Company)		199.2	(267.4)

The notes on pages 146 to 206 are an integral part of these consolidated financial statements.

Consolidated balance sheet

At 31 December 2021

	Note	2021 \$m	2020 \$m
Assets			
Goodwill and intangible assets	12	313.1	298.9
Property, plant and equipment	13	90.4	109.4
Investments in associates	14	5.7	4.9
Deferred tax assets	26	67.3	70.7
Deferred acquisition costs	15	436.9	439.2
Financial assets carried at fair value	17	6,041.3	6,116.8
Reinsurance assets	16, 23	3,908.0	3,644.6
Loans and receivables including insurance receivables	18	1,678.2	1,591.2
Current tax assets		4.9	3.3
Cash and cash equivalents	21	1,300.7	1,577.2
Total assets		13,846.5	13,856.2
Equity and liabilities			
Shareholders' equity			
Share capital	22	38.7	38.7
Share premium	22	516.8	516.5
Contributed surplus	22	184.0	184.0
Currency translation reserve		(289.3)	(270.8)
Retained earnings		2,088.0	1,884.4
Equity attributable to owners of the Company		2,538.2	2,352.8
Non-controlling interest		1.1	1.1
Total equity		2,539.3	2,353.9
Employee retirement benefit obligations	27	35.1	73.5
Deferred tax liabilities	26	0.1	2.7
Insurance liabilities	23	8,868.4	9,113.4
Financial liabilities	17	746.7	946.7
Current tax liabilities		21.3	30.4
Trade and other payables	24	1,635.6	1,335.6
Total liabilities		11,307.2	11,502.3
Total equity and liabilities		13,846.5	13,856.2

The notes on pages 146 to 206 are an integral part of these consolidated financial statements.

The consolidated financial statements were approved by the Board of Directors on 2 March 2022 and signed on its behalf by:



Aki Hussain
Group Chief Executive 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 2020		34.1	70.5	184.0	(326.3)	2,226.3	2,188.6	1.1	2,189.7
Loss for the year (all attributable to owners of the Company)		–	–	–		(293.7)	(293.7)	–	(293.7)
Other comprehensive income net of tax (all attributable to owners of the Company)		–	–	–	55.5	(29.2)	26.3	–	26.3
Employee share options:									
Equity settled share-based payments		–	–	–	–	10.3	10.3	–	10.3
Deferred and current tax on employee share options		–	–	–	–	(5.4)	(5.4)	–	(5.4)
Net movements of treasury shares held by Trust		–	–	–	–	(23.9)	(23.9)	–	(23.9)
Shares issued in the period	22	4.6	446.0	–	–	–	450.6	–	450.6
Balance at 31 December 2020		38.7	516.5	184.0	(270.8)	1,884.4	2,352.8	1.1	2,353.9
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

The notes on pages 146 to 206 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows

For the year ended 31 December 2021

	Note	2021 \$m	2020 \$m
Profit/(loss) before tax		190.8	(268.5)
Adjustments for:			
Net foreign exchange (gain)/loss		(0.7)	14.5
Interest and equity dividend income	7	(88.1)	(107.4)
Interest expense	10	50.8	44.0
Net fair value losses/(gains) on financial assets	7	57.9	(51.2)
Depreciation, amortisation and impairment	9, 12, 13	58.3	56.8
Charges in respect of share-based payments	9, 22	24.0	10.3
Realised gain on sale of subsidiary undertaking and intangible assets		(6.5)	–
Changes in operational assets and liabilities:			
Insurance and reinsurance contracts		(264.2)	633.6
Financial assets carried at fair value		(30.0)	(475.4)
Financial liabilities carried at fair value		(0.4)	(0.1)
Financial liabilities carried at amortised cost		0.7	0.8
Other assets and liabilities		(6.7)	33.3
Cash paid to the pension fund	27	–	(30.4)
Interest received		90.5	102.5
Equity dividends received		1.9	1.6
Interest paid		(49.6)	(42.4)
Current tax paid		(12.1)	(39.1)
Net cash flows from/(used in) operating activities		16.6	(117.1)
Cash flows from the sale of subsidiaries		21.4	–
Purchase of property, plant and equipment		(5.4)	(9.0)
Proceeds from the sale of property, plant and equipment		0.2	8.6
Purchase of intangible assets		(53.5)	(62.5)
Proceeds from the sale of intangible assets		0.7	10.2
Net cash used in investing activities		(36.6)	(52.7)
Proceeds from the issue of ordinary shares	22	0.1	450.6
Shares repurchased	22	–	(23.9)
Distributions made to owners of the Company	22, 29	(39.2)	–
Proceeds from drawdown of short-term borrowings		–	470.0
Repayment of short-term borrowings	17	(195.7)	(289.4)
Principal elements of lease payments		(11.4)	(14.5)
Net cash flows (used in)/from financing activities		(246.2)	592.8
Net (decrease)/increase in cash and cash equivalents		(266.2)	423.0
Cash and cash equivalents at 1 January		1,577.2	1,115.9
Net (decrease)/increase in cash and cash equivalents		(266.2)	423.0
Effect of exchange rate fluctuations on cash and cash equivalents		(10.3)	38.3
Cash and cash equivalents at 31 December	21	1,300.7	1,577.2

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

Included within cash and cash equivalents held by the Group are balances totalling \$215 million (2020: \$172 million) not available for immediate use by the Group outside of the Lloyd's syndicate within which they are held. Additionally, \$7 million (2020: \$9 million) is pledged cash held against Funds at Lloyd's, and \$0.4 million (2020: \$0.5 million) held within trust funds against reinsurance arrangements.

The notes on pages 146 to 206 are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

1 General information

The Hiscox Group, which is headquartered in Hamilton, Bermuda, comprises Hiscox Ltd (the parent company, referred to herein as the 'Company') and its subsidiaries (collectively, the 'Hiscox Group' or the 'Group'). For the period under review the Group provided insurance and reinsurance services to its clients worldwide. It has operations in Bermuda, the UK, Europe, Asia and the USA and currently has over 3,000 staff.

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

2 Basis of preparation

On 31 December 2020, IFRS as adopted by the European Union at that date was brought into UK law and became UK-adopted International Accounting Standards, with future changes being subject to endorsement by the UK Endorsement Board. The Group transitioned to UK-adopted International Accounting Standards in its consolidated financial statements on 1 January 2021. This change constitutes a change in accounting framework. However, there is no impact on recognition, measurement or disclosure in the period reported as a result of the change in framework.

The financial statements of the Group have been prepared in accordance with UK-adopted International Accounting Standards, Section 4.1 of the Disclosure and Transparency Rules and the Listing Rules, both issued by the Financial Conduct Authority (FCA) and in accordance with the provisions of the Bermuda Companies Act 1981.

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

The consolidated financial statements have been prepared on a going concern basis. In adopting the going concern basis, the Board has reviewed the Group's current and forecast solvency and liquidity positions for the next 12 months and beyond. As part of the consideration of the appropriateness

of adopting the going concern basis, the Directors use scenario analysis 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 2 March 2022.

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.

2 Basis of preparation continued

2.1 Significant accounting policies continued

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 2021 have been applied in preparing these consolidated financial statements and had no material impact on the Group.

- Amendments to IFRS 7, IFRS 9, IAS 39, IFRS 4 and IFRS 16 *Interest Rate Benchmark Reform – Phase 2*
The amendments require insurers who apply the temporary exemption from IFRS 9 to apply the amendments in IFRS 9 in accounting for modifications directly required by the IBOR reform.
- Amendments to IFRS 4 *Insurance Contracts* – deferral of IFRS 9
The effective date of IFRS 17, which will be replacing IFRS 4, is 1 January 2023; the fixed expiry date for the temporary exemption in IFRS 4 from applying IFRS 9 has also been deferred to 1 January 2023.
- Covid-19-related rent concessions beyond 30 June 2021 amendments to IFRS 16.

(b) Future accounting developments

The following new standards, and amendments to standards, are effective for annual periods beginning after 1 January 2021 and have not been applied in preparing these financial statements:

- IFRS 9 *Financial Instruments*
This standard incorporates new classification and measurement requirements for financial assets, the introduction of an expected credit loss impairment model which will replace the incurred loss model of IAS 39 and new hedge accounting requirements. The Group satisfies the criteria set out in IFRS 4 *Insurance Contracts* for the temporary exemption from IFRS 9. At 31 December 2015 (the date specified by IFRS 4), the carrying value of the Group's liabilities connected with insurance comprised over 90% of the total liabilities. These include significant insurance liabilities; the subordinated debt 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. 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. Financial assets within the scope of IFRS 17 *Insurance Contracts* such as premiums receivable and reinsurance and other recoveries on paid claims, which together form the majority of the carrying value of the Group's loans and receivables, and reinsurance recoveries on outstanding claims, are outside the scope of IFRS 9.

Loans and receivables also includes amounts due from brokers, agents and intermediaries and other financial assets which are within the scope of IFRS 9. Under IFRS 9, these assets continue to be recognised at amortised cost less impairment, with the measurement of impairment reflecting expected credit losses. The Group expects a recognition of an earlier and higher loss allowance under this approach compared to the current incurred loss approach, resulting in a negative impact on equity on adoption. IFRS 9 has been endorsed by the UK Endorsement Board.

— IFRS 17 *Insurance Contracts*

IFRS 17 will significantly change the accounting for insurance contracts. The adoption of the standard will result in changes compared to the Group's current accounting policies including the following:

- insurance contracts assets and liabilities are measured based on a current estimate of future cash flows, including a risk adjustment and a contractual service margin. As a result, the claims and the reinsurance recoveries will be recognised on a present value basis with the unwind of the discounting recognised in the income statement;
- the premium allocation approach, an optional simplified measurement model for an eligible group of insurance contracts, will be adopted. This approach does not require separate identification of the risk adjustment and the contractual service margin until a claim is incurred. The premium is recognised over the 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;
- any expected losses arising from loss-making contracts and the corresponding expected recoveries from reinsurance contracts held are to be accounted for in the income statement when the entity determines that losses are expected;
- reinsurance commission income that is contingent on claims is treated as a reduction of claims recoveries cash flows and those that are not contingent on claims is accounted for as part of premium paid cash flows;
- all insurance contract assets and liabilities are monetary items. As a result, those account balances denominated in foreign currencies are subject to revaluation, with the impact of changes in foreign exchange rates recognised in the income statement.

The presentation of the income statement will also change, with premium and claims figures being replaced with insurance contract revenue, insurance service expense and insurance finance income and expense.

The cash flow and economic value generated by the Group's insurance business does not change. No significant effects on the Group's regulatory capital position, nor the ability of subsidiaries to pay dividends to Group, are expected. The Bermuda Solvency Capital Requirements and Solvency II will continue to drive the business's ability to pay dividends to the Group.

The requirements of IFRS 17 are complex and interpretations thereof are subject to change as the

Chapter 1	4	Chapter 2	16	Chapter 3	62	Chapter 4	94	Chapter 5	128	Chapter 6	134
Performance and purpose		A closer look		Governance		Remuneration		Shareholder information		Financial summary	
										Notes to the consolidated financial statements	

2 Basis of preparation

2.1 Significant accounting policies

(b) Future accounting developments continued

project progresses and as the Group continues to analyse the impacts of the standard and recent amendments. Group-wide accounting guidance and application methodologies continue to be developed, and a project team has been mobilised to progress the detailed design and implementation of required changes to financial reporting systems. Market developments also continue to be monitored in order to assess the impact of evolving interpretations and other changes.

IFRS 17 is effective on 1 January 2023 and has not yet been endorsed by the UK Endorsement Board.

— Initial application of IFRS 17 and IFRS 9 – comparative information

This narrow-scope amendment is not expected to be used by the Group.

2.2 Basis of consolidation

(a) Subsidiaries

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

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired, liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets. Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(b) Associates

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

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

(c) Transactions eliminated on consolidation

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

2.3 Foreign currency translation

(a) Functional currency

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

(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;

2 Basis of preparation

2.3 Foreign currency translation

(c) Group companies continued

- 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.

2.5 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 another valuation technique.

2 Basis of preparation

2.6 Fair value continued

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.

(a) Financial assets at fair value through profit or loss

A financial asset is classified into this category at inception if it is managed and evaluated on a fair value basis in accordance with a documented strategy, if acquired principally for the purpose of selling in the short term, or if it forms part of a portfolio of financial assets in which there is evidence of short-term profit taking.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. Receivables arising from insurance contracts are included in this category and are reviewed for impairment as part of the impairment review of loans and receivables. Loans and receivables are carried at amortised cost less any provision for impairment in value.

(c) Borrowings

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

2.8 Cash and cash equivalents

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

2.9 Impairment of assets

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

(a) Non-financial assets

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

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

(b) Financial assets

Objective factors that are considered when determining whether a financial asset or group of financial assets may be impaired include, but are not limited to, the following:

- negative rating agency announcements in respect of investment issuers, reinsurers and debtors;
- significant reported financial difficulties of investment issuers, reinsurers and debtors;
- actual breaches of credit terms such as persistent late payments or actual default;
- the disintegration of the active market(s) in which a particular asset is traded or deployed;
- adverse economic or regulatory conditions that may restrict future cash flows and asset recoverability; and
- the withdrawal of any guarantee from statutory funds or sovereign agencies implicitly supporting the asset.

(c) Impairment loss

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). For financial assets, the amount of the impairment loss

2 Basis of preparation

2.9 Impairment of assets

(c) Impairment loss continued

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.

2.12 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 inception 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.

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2 Basis of preparation

2.13 Insurance contracts continued

(e) Outwards reinsurance contracts held

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

The benefits to which the Group is entitled under outwards reinsurance contracts are recognised as reinsurance assets. These assets consist of short-term balances due from reinsurers (classified within loans and receivables) as well as longer-term receivables (classified as reinsurance assets) that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract.

Reinsurance liabilities primarily comprise premiums payable for outwards reinsurance contracts. The Group assesses its reinsurance assets on a regular basis and, if there is objective evidence, after initial recognition, of an impairment in value, the Group reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises the impairment loss in the income statement.

(f) Retroactive reinsurance transactions

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 recovery method over the settlement period of the reserves and reflected through the claims and claim adjustment expenses line. In transactions where the consideration paid exceeds the estimated liabilities for claims and claim adjustment expenses, a loss is recognised immediately.

(g) Reinsurance commission income

Reinsurance commission income represents commission earned from ceding companies which is earned over the terms of the underlying reinsurance contracts and presented separately in the consolidated income statement.

(h) Receivables and payables related to insurance contracts

Receivables and payables are recognised when due. These include amounts due to, and from, agents, brokers and insurance contract holders. If there is objective

evidence that the insurance receivable is impaired, the Group reduces the carrying amount of the insurance receivable accordingly and recognises the impairment loss in the income statement.

(i) Salvage and subrogation reimbursements

Some insurance contracts permit the Group to sell property acquired in settling a claim (i.e. salvage). The Group may also have the right to pursue third parties for payment of some or all costs (i.e. subrogation). Estimates of salvage recoveries are included as an allowance in the measurement of the insurance liability for claims and salvage property is recognised in other assets when the liability is settled. The allowance is the amount that can reasonably be recovered from the disposal of the property. Subrogation reimbursements are also considered as an allowance in the measurement of the insurance liability for claims and are recognised in other assets when the liability is settled. The allowance is the assessment of the amount that can be recovered from the action against the liable third party.

2.14 Taxation

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

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

2.15 Employee benefits

(a) Pension obligations

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

2 Basis of preparation

2.15 Employee benefits

(a) Pension obligations continued

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, their final pensionable earnings at the measurement date and the service cost is the expected administration cost during the year. Past service costs are recognised immediately in the income statement.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in other comprehensive income. The Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in the income statement through operating expenses.

To the extent that a surplus emerges on the defined benefit obligation, it is only recognisable as an asset when it is probable that future economic benefits will be recovered by the Group in the form of refunds.

(b) Other long-term employee benefits

The Group provides sabbatical leave to employees on completion of a minimum service period of ten years. The present value of the expected costs of these benefits is accrued over the period of employment. In determining this liability, consideration is given to future increases in salary levels, experience with employee departures and periods of service.

(c) Share-based compensation

The Group operates a number of equity settled share-based employee compensation plans. These include the share option schemes, and the Group's Performance Share Plans, outlined in the Directors' remuneration report together with the Group's Save As You Earn (SAYE) schemes. The fair value of the employee services received, measured at grant date, in exchange for the grant of the awards is recognised as an expense, with

the corresponding credit being recorded in retained earnings within equity. The total amount to be expensed over the vesting period is determined by reference to the fair value of the awards granted, excluding the impact of any non-market vesting conditions (for example, profitability or net asset growth targets). Non-market vesting conditions are included in assumptions about the number of awards that are expected to become exercisable. At each balance sheet date, the Group revises its estimates of the number of awards that are expected to vest.

The Group recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity, in periods in which the estimates are revised.

When the terms and conditions of an equity settled share-based employee compensation plan are modified, and the expense to be recognised increases as a result of the modification, then the increase is recognised evenly over the remaining vesting period. When a modification reduces the expense to be recognised, there is no adjustment recognised and the pre-modification expense continues to be applied. The proceeds received net of any directly attributable transaction costs are credited to share capital and share premium when the options are exercised.

(d) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

(e) Profit sharing and bonus plans

The Group recognises a liability and an expense for bonuses and profit sharing, based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognises a provision where a contractual obligation to employees exists or where there is a past practice that has created a constructive obligation.

(f) Accumulating compensation benefits

The Group recognises a liability and an expense for accumulating compensation benefits (for example, holiday entitlement), based on the additional amount that the Group expects to pay as a result of the unused entitlement accumulated at the balance sheet date.

2.16 Net investment hedge accounting

In order to qualify for hedge accounting, the Group is required to document in advance the relationship between the item being hedged and the hedging instrument. The Group is also required to document and demonstrate an assessment of the relationship between the hedged item and the hedging instrument, which shows that the hedge will be highly effective on an ongoing basis. This effectiveness testing is reperformed at each period end to ensure that the hedge remains highly effective. The Group hedged elements of its net investment in certain foreign entities through foreign currency borrowings that qualified for hedge accounting from 3 January 2007 until their replacement on 6 May 2008;

2 Basis of preparation

2.16 Net investment hedge accounting continued

accordingly gains or losses on retranslation are recognised in equity to the extent that the hedge relationship was effective during this period. Accumulated gains or losses will be recycled to the income statement only when the foreign operation is disposed of. The ineffective portion of any hedge is recognised immediately in the income statement.

2.17 Finance costs

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

2.18 Provisions

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

2.19 Leases

(a) Hiscox as lessee

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

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs. Lease liabilities are included in 'trade and other payables' on the balance sheet.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is

remeasured if there is a modification that is not accounted for as a separate lease: future lease payments that are linked to a rate or index, a change in the lease term, a change in the in-substance fixed lease payments, a change in the assessment to purchase the underlying asset or a change in the amounts expected to be payable under a residual value guarantee.

The Group applies the short-term lease recognition exemption to its short-term leases (i.e. those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

(b) Hiscox as lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant contractual agreement.

2.20 Dividend distribution

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

2.21 Use of significant judgements, estimates and assumptions

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

The Audit Committee reviews the reasonableness of critical judgements, estimates and assumptions applied and the appropriateness of significant accounting policies. The significant issues considered by the Committee in the year are included within the Audit Committee report on pages 89 to 91.

Significant accounting judgements

The following accounting policies are those considered to have a significant impact on the amounts recognised in the consolidated financial statements, with those judgements involving estimation summarised thereafter.

- 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 loss 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

2 Basis of preparation

2.21 Use of significant judgements, estimates and assumptions

Significant accounting estimates continued

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 on the balance sheet, and in particular the estimate of losses incurred but not reported (IBNR) within these balances. The total gross estimate of IBNR as at 31 December 2021 is \$4,539.8 million (2020: \$4,571.9 million). The total estimate for reinsurers' share of losses IBNR as at 31 December 2021 is \$2,349.5 million (2020: \$2,227.7 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 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 specific recent volatility. This complex set of economic variables can have a significant impact on the financial statements, as shown in note 27.

The Group operates in a complex multinational environment, and legislation concerning the determination of taxation assets and liabilities is complex and continually evolving. In preparing the financial statements, the Group applies significant judgements in identifying uncertainties over tax treatments and in the measurement of the provision being the best estimate of the amount expected to become payable. The assessment is based on the judgement of tax professionals within the Group supported by previous experience in respect of such activities and based on advice sought from specialist tax advisors.

A deferred tax asset can be recognised only to the extent that it is recoverable. The recoverability of deferred tax assets in respect of carry forward losses requires consideration of the future levels of taxable profit in the Group. In preparing the Group's financial statements, management estimates taxation assets and liabilities after taking appropriate professional advice, as shown in note 25. Significant estimates and assumptions used in the valuation of deferred tax relate to the forecast taxable profits, taking into account the Group's financial and strategic plans. See note 26 for further details of adjustments made to deferred tax during the year.

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

2.22 Reporting of additional performance measures

The Directors consider that the combined ratio measures reported in respect of operating segments and the Group overall in note 4 and net asset value per share and return on equity measures disclosed in notes 5 and 6, provide useful information regarding the underlying performance of the Group's businesses. These measures are widely recognised by the insurance industry and are consistent with the internal performance measures reviewed by senior management including the chief operating decision-maker. However, these measures are not defined within the accounting standards and interpretations, and therefore may not be directly comparable with similarly titled additional performance measures reported by other companies.

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3 Management of risk

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

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

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

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 demonstrated continued resilience, underscoring the benefits of its business model, disciplined risk management and ongoing investment in technology and infrastructure. The measures the Group has implemented to adapt to the Covid-19 pandemic have proven largely effective in addressing the relevant challenges and operational risks and some of these measures represent an acceleration of longer-term plans.

3.2 Insurance risk

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

i) Underwriting risk

The Board sets the Group's underwriting strategy and risk appetite, seeking to exploit identified opportunities in 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. This approach is still being refined and is expected to be further updated for 2022.

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. Regular meetings are held between the Group Chief Underwriting Officer and a specialist team in order to monitor claims development patterns and discuss individual underwriting issues as they arise. The Group compiles estimates of losses arising from extreme loss events using statistical models alongside input from its underwriters. These require significant management judgement. The extreme loss scenarios, shown on page 41, represent hypothetical major events occurring in areas with large insured values.

3 Management of risk

3.2 Insurance risk

i) Underwriting risk continued

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 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 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 standalone 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 44 to 59. 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

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

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

		Types of insurance risk in the Group						
		Reinsurance inwards \$m	Property – marine and major assets \$m	Property – other assets \$m	Casualty – professional indemnity \$m	Casualty – other risks \$m	Other* \$m	Total \$m
Total	Gross	2,592.7	286.7	1,308.1	2,650.4	1,576.5	699.0	9,113.4
	Net	812.8	138.1	671.3	2,268.6	1,097.0	481.0	5,468.8

*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.

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3 Management of risk

3.2 Insurance risk

i) Underwriting risk

Reinsurance inwards continued

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.

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

3 Management of risk

3.2 Insurance risk

i) Underwriting risk

Casualty insurance risks continued

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 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 specific aspects of the impact of Covid-19 on Hiscox in relation to insurance risk, the Group focuses on:

- handling claims arising from the Covid-19 pandemic in a fair, consistent and efficient way. Actively settling claims for business interruption, event cancellation and abandonment, media and entertainment and other segments including travel;
- working with reinsurers to finalise the reinsurance recoveries.

Following the Supreme Court Judgment in January 2021, the Group began paying claims in line with the judgment. The Group has increased its claims handling capacity, and the process of collecting information from customers who have cover and settling their claims progresses well. Settling these claims remains a high priority for the Group. Further, the UK business interruption book has now been re-underwritten under the appropriate pandemic exclusion terms.

While the Group incurred additional losses early in 2021 due to additional UK lockdown measures in January, we have also benefitted from positive prior-year development on first order Covid-19-related losses in our events and contingency book. Consequently, there has been no material movement in Covid-19 losses for the year. The ultimate amounts of these claims remain subject to a higher than normal level of uncertainty in the best estimate at this stage of development. Consequently, in measuring the liabilities, the Group has included an allowance for risk and uncertainties that is above the best estimate.

In determining the Covid-19-related net claims, the Group estimates the reinsurers' share of the claims by applying a consistent set of assumptions with those in determining the gross claims, considering the individual wording of the reinsurance treaties, and assessing the potential for default or dispute risks. Changes to this set of assumptions and estimates could materially affect the amount of reinsurers' share of the claims.

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

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3 Management of risk

3.3 Financial risk

(a) Reliability of fair values continued

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 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 2021 was \$461 million (2020: \$464 million). A 10% downward correction in equities and investment fund prices at 31 December 2021 would have been expected to reduce Group equity and profit after tax by approximately \$41 million (2020: \$38 million).

These may be analysed as follows:

Nature of equity and investment fund holdings

	2021 % weighting	2020* % weighting
Directly held equity securities	10	10
Equity funds	55	60
Hedge funds	35	30
Geographic focus		
Specific UK mandates	38	46
Global mandates	62	54

*Certain debt and bond funds have been reallocated from investment funds to debt and fixed income holdings to better reflect the nature of the investments.

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 2021 was \$5,528 million (2020*: \$5,588 million). These may be analysed below as follows:

Nature of debt and fixed income holdings

	2021 % weighting	2020* % weighting
Government issued	16	20
Agency and government supported	6	5
Asset-backed securities	2	—
Mortgage-backed instruments	7	6
Corporate bonds	65	64
Lloyd's deposits and bond funds	2	3
Credit funds	2	2

*Certain debt and bond funds have been reallocated from investment funds to debt and fixed income holdings to better reflect the nature of the investments.

One method of assessing interest rate sensitivity is through the examination of duration-convexity factors in the underlying portfolio. Using a duration-convexity-based sensitivity analysis, if market interest rates had increased or decreased by 100 basis points at the balance sheet date, the Group equity and profit after tax for the year might have been expected to decrease or increase by approximately \$94 million respectively (2020: \$90 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'

3 Management of risk

3.3 Financial risk

(c) Interest rate risk continued

fair values for a 100 basis point change in the term structure of market interest rates.

Insurance contract liabilities are not directly sensitive to the level of market interest rates, as they are undiscounted and contractually non-interest-bearing. The Group's debt and fixed income assets are further detailed in note 17.

At 31 December 2021, the Group had borrowings of £550 million (2020: £691 million). The borrowings comprised of £nil drawn on the Group's borrowing facility (2020: £141 million) and £550 million (2020: £550 million) of long-term debt. The £550 million includes two listed instruments of £275 million each, as explained in note 17: the first being fixed-to-floating rate notes where the floating rate becomes effective from November 2025; the second being fixed rate notes maturing in December 2022. 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.

The Group's maximum exposure to credit risk is represented by the carrying values of financial assets and reinsurance assets included in the consolidated balance sheet at any given point in time. The Group does not use credit derivatives or other products to mitigate maximum credit risk exposures on reinsurance assets, but collateral may be requested to be held against these assets. The Group structures the levels of credit risk accepted by placing limits on its exposure to a single counterparty, or groups of counterparties, and having regard to geographical locations. Such risks are subject to an annual or more frequent review.

There is no significant concentration of credit risk with respect to loans and receivables, as the Group has a large number of internationally dispersed debtors with unrelated operations. Reinsurance is used to contain insurance risk. This does not, however, discharge the Group's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the Group remains liable for the payment to the policyholder. The creditworthiness of reinsurers is therefore continually reviewed throughout the year.

The Group Credit Committee assesses the creditworthiness of all reinsurers by reviewing credit grades provided by rating agencies and other publicly available financial information detailing their financial strength and performance, as well as detailed analysis from the Group's analysis team. The financial analysis of reinsurers produces an assessment categorised by factors including their S&P rating (or equivalent when not available from S&P).

Despite the rigorous nature of this assessment exercise, and the resultant restricted range of reinsurance counterparties with acceptable strength and credit credentials that emerges therefrom, some degree of credit risk concentration remains inevitable.

The Committee considers the reputation of its reinsurance partners and also receives details of recent payment history and the status of any ongoing negotiations between Group companies and these third parties.

This information is used to update the reinsurance purchasing strategy.

Individual operating units maintain records of the payment history for significant brokers and contract holders with whom they conduct regular business. The exposure to individual counterparties is also managed by other mechanisms, such as the right of offset, where counterparties are both debtors and creditors of the Group, and obtaining collateral from unrated counterparties. Management information reports detail provisions for impairment on loans and receivables and subsequent write-off. Exposures to individual intermediaries and groups of intermediaries are collected within the ongoing monitoring of the controls associated with regulatory solvency.

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.

3 Management of risk

3.3 Financial risk

(d) Credit risk continued

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 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

As at 31 December 2020	Note	AAA \$m	AA \$m	A \$m	BBB \$m	Other/ non-rated \$m	Total \$m
Debt and fixed income holdings*	17	411.3	1,948.2	1,586.7	1,426.8	215.3	5,588.3
Reinsurance assets	16	1,079.7	946.7	1,396.0	188.7	33.5	3,644.6
Cash and cash equivalents	21	134.0	98.9	1,339.6	3.5	1.2	1,577.2
Total		1,625.0	2,993.8	4,322.3	1,619.0	250.0	10,810.1

*The 2020 figures have been re-presented for the re-allocation of certain equities to debt holdings.

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.

The largest aggregated counterparty exposure related to debt and fixed income holdings at 31 December 2021 of \$712 million is to the US Treasury (2020: \$920 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 2021 is to Munich Re. The recoverable from Munich Re represents 11% (2020: Kiskadee 19%) 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 2021 and 2020.

3 Management of risk

3.3 Financial risk continued

(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 at balance sheet date analysed by contractual maturity

	Less than one year \$m	Between one and two years \$m	Between two and five years \$m	Over five years \$m	2021 total \$m	2020* total \$m
Debt and fixed income holdings	1,111.2	1,263.1	2,510.7	643.1	5,528.1	5,588.3
Cash and cash equivalents	1,300.7	–	–	–	1,300.7	1,577.2
Total	2,411.9	1,263.1	2,510.7	643.1	6,828.8	7,165.5

*The 2020 figures have been re-presented for the re-allocation of certain debt and bond funds to debt and fixed income holdings.

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.

During the year, the Group has repaid all of the cash borrowings that were drawn as contingency funds during the peak of the Covid-19 pandemic.

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

	2021 years	2020 years
US Dollar	4.89	3.04
Sterling	2.66	2.82
Euro	3.05	2.71
Canadian Dollar	2.47	2.02

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

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

2020	Within one year \$m	Between one and two years \$m	Between two and five years \$m	Over five years \$m	2020 total \$m
Reinsurance inwards	1,168.2	561.4	507.5	154.1	2,391.2
Property – marine and major assets	78.3	55.8	46.8	14.8	195.7
Property – other assets	444.0	364.0	151.8	52.6	1,012.4
Casualty – professional indemnity	730.2	490.0	519.2	137.1	1,876.5
Casualty – other risks	650.7	338.7	278.5	74.3	1,342.2
Other*	265.2	95.3	87.4	25.5	473.4
Total	3,336.6	1,905.2	1,591.2	458.4	7,291.4

*Includes a diverse mix of certain specialty lines such as kidnap and ransom, terrorism and other risks which contain a mix of property and casualty exposures.

Details of the payment profile of the Group's borrowings, derivative instruments and other liabilities are given in notes 17, 19 and 24.

(f) Currency risk

Currency risk is the risk of loss resulting from fluctuations in exchange rates. The Group operates internationally and therefore is exposed to the financial impact of fluctuations in the exchange rates of various currencies.

The Group's exposures to foreign exchange risk arise mainly with respect to the US Dollar, Sterling and the Euro. These exposures may be classified in two main categories:

- operational foreign exchange exposure arises from the conversion of foreign currency transactions resulting from the activities of entering into insurance, investment and operational contracts in a currency that is different to each respective entity's functional currency; and
- structural foreign exchange exposure arises from the translation of the Group's net investment in foreign operations to the US Dollar, the Group's 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 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 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

As at 31 December 2020	US Dollar \$m	Sterling \$m	Euro \$m	Other \$m	2020 \$m
Goodwill and intangible assets	141.1	146.0	7.7	4.1	298.9
Property, plant and equipment	35.3	49.1	22.4	2.6	109.4
Investments in associates	—	4.9	—	—	4.9
Deferred income tax	26.4	37.1	7.2	—	70.7
Deferred acquisition costs	240.0	116.3	63.5	19.4	439.2
Financial assets carried at fair value	4,159.3	1,221.9	607.0	128.6	6,116.8
Reinsurance assets	2,525.4	746.7	221.2	151.3	3,644.6
Loans and receivables including insurance receivables	938.6	533.1	99.7	84.0	1,655.4
Current tax assets	2.3	—	1.0	—	3.3
Cash and cash equivalents	754.0	493.0	197.7	132.5	1,577.2
Total assets	8,822.4	3,348.1	1,227.4	522.5	13,920.4
Employee retirement benefit obligations	—	73.5	—	—	73.5
Deferred tax	—	—	2.7	—	2.7
Insurance liabilities	6,133.5	1,771.3	907.0	301.6	9,113.4
Financial liabilities	125.0	821.3	0.4	—	946.7
Current tax	—	10.0	20.4	—	30.4
Trade and other payables	706.4	456.4	154.3	82.7	1,399.8
Total liabilities	6,964.9	3,132.5	1,084.8	384.3	11,566.5
Total equity	1,857.5	215.6	142.6	138.2	2,353.9

3 Management of risk

3.3 Financial risk

(f) Currency risk continued

Sensitivity analysis

As at 31 December 2021, the Group used closing rates of exchange of \$1: £0.74 and \$1: €0.88 (2020: \$1: £0.73 and \$1: €0.82). The Group performs sensitivity analysis based on a 10% strengthening or weakening of the US Dollar against Sterling and the Euro.

This analysis assumes that all other variables, in particular interest rates, remain constant and that the underlying valuation of assets and liabilities in their base currency is unchanged. The process of deriving the undernoted estimates takes account of the linear retranslation movements of foreign currency monetary assets and liabilities together with the impact on the retranslation of those Group entities with non-US Dollar functional currency financial statements.

During the year, the Group transacted in a number of over-the-counter forward currency derivative contracts. The impact of these contracts on the sensitivity analysis is negligible.

As at 31 December	December 2021 effect on equity after tax \$m	December 2021 effect on profit before tax \$m	December 2020 effect on equity after tax \$m	December 2020 effect on profit before tax \$m
Strengthening of Sterling	49.0	10.2	83.6	8.9
Weakening of Sterling	(40.1)	(8.4)	(68.4)	(7.3)
Strengthening of Euro	8.6	(18.5)	27.2	(0.9)
Weakening of Euro	(7.1)	15.2	(22.3)	0.7

(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 2021, the available capital under IFRS was \$2,599 million (2020: \$2,431 million), comprising net tangible asset value of \$2,226 million (2020: \$2,055 million) and subordinated debt of \$373 million (2020: \$376 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 \$941 million at 31 December 2021 (2020: \$946 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 £450 million (under a revolving credit facility) and utilised as LOC up to \$266 million. The facility was renewed during 2020, enabling the Group to utilise the LOC as Funds at Lloyd's to support underwriting on the 2020, 2021 and 2022 years of account. The revolving credit facility is available until the end of 2022. As at 31 December 2021, \$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 (2020: \$266 million and \$193.4 million 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 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;
- £275 million of fixed rate senior notes raised in March 2018 and maturing in 2022. The debt is rated BBB+ by S&P and Fitch;
- External Names – 27.4% of Syndicate 33's capacity is capitalised by third parties, who also pay a profit share of approximately 20%;
- Syndicate 6104 at Lloyd's – with a capacity of £13 million for the 2022 year of account (2021 year of account: £23 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 loss portfolio transfers – 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.

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3 Management of risk

3.4 Capital risk management continued

Capital modelling and regulation

The capital requirements of an insurance group are determined by its exposure to risk and the solvency criteria established by management and statutory regulations.

The Group's capital requirements are managed both centrally and at a regulated entity level. The assessed capital requirement for the business placed through Hiscox Insurance Company Limited, Hiscox Insurance Company (Bermuda) Limited, Hiscox Insurance Company (Guernsey) Limited, Hiscox Insurance Company Inc., Hiscox Société Anonyme and Direct Asia Insurance (Singapore) Pte Limited is driven by the level of resources necessary to maintain regulatory requirements.

The Group's regulatory capital is supervised by the Bermuda Monetary Authority (BMA). The Group had sufficient capital at all times throughout the year to meet the BMA's requirements. The BMA will complete phasing in capital requirements changes at the 2021 year-end. The Group expects to maintain an appropriate margin of solvency after these changes have taken effect.

The Solvency II regime came into force in Europe on 1 January 2016. This requires insurance companies to calculate their capital requirements using either an internal model or a standard formula. Hiscox Insurance Company Limited and Hiscox Société Anonyme use the standard formula to calculate their regulatory capital requirements. Their risk profiles are sufficiently well represented by the standard formula not to warrant going through the internal model approval process. Hiscox's Lloyd's operations use the internal model that has been built to meet the requirements of the Solvency II regime. The model is concentrated specifically on the particular product lines, market conditions and risk appetite of each risk carrier.

For Syndicate 33 and Syndicate 3624, internal model results are uplifted by Lloyd's to the level of capital required to support its ratings. Capital models are used more widely across the Group to monitor exposure to key risk types, inform decision-making and measure ROE across different segments of the business. From the 2016 year-end, the Group has been required to publish a financial condition report, as part of its regulatory filing with the BMA. This is a public document and sets out the financial performance and solvency position of the Group in accordance with the economic balance sheet return filed with the BMA. It is intended to provide the public with certain information to be able to make informed assessments about the Group. In the Group's other geographical territories, including the USA and Asia, its subsidiaries underwriting insurance business are required to operate within broadly similar risk-based externally imposed capital requirements when accepting business.

During the year the Group was in compliance with capital requirements imposed by regulators in each jurisdiction where the Group operates.

3.5 Tax risk

The Group is subject to income taxes levied by the various jurisdictions in which the Group operates, and the division of taxing rights between these jurisdictions results in the Group tax expense and effective rate of income tax disclosed in these financial statements. Due to the Group's operating model, there is an unquantifiable risk that this division of taxing rights could be altered materially, either by a change to the tax residence, or permanent establishment profile, of Hiscox Ltd or its principal subsidiaries; or due to the re-pricing or re-characterisation for tax purposes of transactions between members of the Group, under local transfer pricing or related tax legislation. The Group seeks to manage this risk by:

- maintaining appropriate internal policies and controls over its operations worldwide;
- monitoring compliance with these policies on an ongoing basis;
- adhering to internationally recognised best practice in determining the appropriate division of profits between taxing jurisdictions;
- taking additional advice and obtaining legal opinions from local third-party professionals with the necessary experience in the particular area.

Various jurisdictions in which the Group operates are currently considering implementation of OECD 'Pillar 2' rules, which, if legislation is substantively enacted, 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 \$25 million and \$83 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.

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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.

In January 2021, the Hiscox Special Risks division was restructured, integrating its locally written European and US kidnap and ransom activities with Hiscox Europe and Hiscox USA, and including its activities in Guernsey, Miami and London in a newly created Crisis Management division in Hiscox London Market. Comparative figures have been re-presented to reflect this change, along with the previously reported figures where Special Risks was fully allocated to Hiscox Retail. The legal entity structure is not impacted by this re-presentation.

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. In addition, the segment includes elements of business written by Syndicate 3624 being auto physical damage and aviation, however, these are in run-off.
- **Hiscox Re & ILS** is the reinsurance division of the Hiscox Group, combining the underwriting platforms in Bermuda and London. The segment comprises the performance of Hiscox Insurance Company (Bermuda) Limited, excluding the internal quota share arrangements, with the reinsurance contracts written by Syndicate 33. In addition, the healthcare and casualty reinsurance contracts written in 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. The segment includes results from run-off portfolios where the Group has ceded all insurance risks to a third-party reinsurer.

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 2021					Year to 31 December 2020*				
	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	2,290.0	1,171.4	807.8	–	4,269.2	2,180.0	1,109.7	743.4	–	4,033.1
Net premiums written	1,969.3	711.5	274.2	–	2,955.0	1,907.8	649.9	192.7	–	2,750.4
Net premiums earned	1,958.6	690.3	271.0	–	2,919.9	1,886.5	637.6	228.1	–	2,752.2
Investment result	26.9	15.8	8.8	(0.3)	51.2	103.4	60.5	33.6	–	197.5
Other income	22.8	19.1	11.3	3.6	56.8	20.3	14.9	12.5	2.5	50.2
Total income	2,008.3	725.2	291.1	3.3	3,027.9	2,010.2	713.0	274.2	2.5	2,999.9
Claims and claim adjustment expenses, net of reinsurance	(985.9)	(333.9)	(110.6)	–	(1,430.4)	(1,409.2)	(280.8)	(232.7)	–	(1,922.7)
Expenses for the acquisition of insurance contracts	(524.9)	(193.9)	(15.9)	–	(734.7)	(503.1)	(184.3)	(26.5)	–	(713.9)
Operational expenses	(435.7)	(92.0)	(64.7)	(30.3)	(622.7)	(392.2)	(92.6)	(49.1)	(39.1)	(573.0)
Net foreign exchange gains/(losses)	–	–	–	0.7	0.7	–	–	–	(14.5)	(14.5)
Total expenses	(1,946.5)	(619.8)	(191.2)	(29.6)	(2,787.1)	(2,304.5)	(557.7)	(308.3)	(53.6)	(3,224.1)
Results of operating activities	61.8	105.4	99.9	(26.3)	240.8	(294.3)	155.3	(34.1)	(51.1)	(224.2)
Finance costs	(6.9)	(0.6)	(1.4)	(41.9)	(50.8)	(1.3)	(0.1)	(1.0)	(41.6)	(44.0)
Share of profit/(loss) of associates after tax	–	–	–	0.8	0.8	–	–	–	(0.3)	(0.3)
Profit/(loss) before tax	54.9	104.8	98.5	(67.4)	190.8	(295.6)	155.2	(35.1)	(93.0)	(268.5)

*See Note 4 on page 169 for further details.

	Year to 31 December 2020				
As previously reported	Hiscox Retail \$m	Hiscox London Market \$m	Hiscox Re & ILS \$m	Corporate Centre \$m	Total \$m
Gross premiums written	2,266.3	1,023.4	743.4	–	4,033.1
Net premiums written	1,986.8	570.9	192.7	–	2,750.4
Net premiums earned	1,975.5	548.6	228.1	–	2,752.2
Investment result	107.3	56.6	33.6	–	197.5
Other income	21.4	13.8	12.5	2.5	50.2
Total income	2,104.2	619.0	274.2	2.5	2,999.9
Claims and claim adjustment expenses, net of reinsurance	(1,395.6)	(294.4)	(232.7)	–	(1,922.7)
Expenses for the acquisition of insurance contracts	(539.0)	(148.4)	(26.5)	–	(713.9)
Operational expenses	(405.9)	(78.9)	(49.1)	(39.1)	(573.0)
Net foreign exchange (losses)	–	–	–	(14.5)	(14.5)
Total expenses	(2,340.5)	(521.7)	(308.3)	(53.6)	(3,224.1)
Results of operating activities	(236.3)	97.3	(34.1)	(51.1)	(224.2)
Finance costs	(1.3)	(0.1)	(1.0)	(41.6)	(44.0)
Share of (loss) of associates after tax	–	–	–	(0.3)	(0.3)
(Loss)/profit before tax	(237.6)	97.2	(35.1)	(93.0)	(268.5)

4 Operating segments

(a) Profit before tax by segment continued

The following charges are included within the consolidated income statement:

	Year to 31 December 2021					Year to 31 December 2020				
	Hiscox Retail \$m	Hiscox London Market \$m	Hiscox Re & ILS \$m	Corporate Centre \$m	Total \$m	Hiscox Retail \$m	Hiscox London Market \$m	Hiscox Re & ILS \$m	Corporate Centre \$m	Total \$m
Depreciation	16.1	2.2	2.0	0.5	20.8	16.4	2.6	2.7	0.1	21.8
Amortisation of intangible assets	32.5	3.7	1.0	–	37.2	26.4	4.2	1.0	–	31.6
Impairment of intangible assets	0.3	–	–	–	0.3	0.2	–	–	–	0.2
Total	48.9	5.9	3.0	0.5	58.3	43.0	6.8	3.7	0.1	53.6

The Group's wholly owned subsidiary, Hiscox Syndicates Limited, oversees the operation of Syndicate 33 at Lloyd's. The Group's percentage participation in Syndicate 33 can fluctuate from year-to-year and, consequently, presentation of the results at the 100% level removes any distortions arising therefrom.

	Year to 31 December 2021					Year to 31 December 2020*				
	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 (%)	50.0	49.5	40.0	–	48.9	75.9	47.8	99.0	–	70.0
Expense ratio (%)	48.9	39.6	28.0	–	44.3	47.5	41.4	32.8	–	44.5
Combined ratio (%)	98.9	89.1	68.0	–	93.2	123.4	89.2	131.8	–	114.5

*See note 4 on page 169 for further details.

	Year to 31 December 2020				
As previously reported	Hiscox Retail	Hiscox London Market	Hiscox Re & ILS	Corporate Centre	Total
100% ratio analysis					
Claims ratio (%)	72.2	54.1	99.0	–	70.0
Expense ratio (%)	47.8	39.6	32.8	–	44.5
Combined ratio (%)	120.0	93.7	131.8	–	114.5

4 Operating segments

(a) Profit before tax by segment continued

The claims ratio is calculated as claims and claim adjustment expenses, net of reinsurance, as a proportion of net premiums earned. The expense ratio is calculated as the total of expenses for the acquisition of insurance contracts, operational expenses, including profit-related pay, as a proportion of net premiums earned. The combined ratio is the total of the claims and expenses ratios. All ratios are calculated using the 100% results and excludes a run-off portfolio, where the Group has ceded all insurance risks to a third-party reinsurer, included within Corporate Centre.

Costs allocated to Corporate Centre are non-underwriting-related costs and are not included within the combined ratio. The impact on profit before tax of a 1% change in each component of the segmental combined ratios is shown in the following table. Any further ratio change is linear in nature.

	Year to 31 December 2021			Year to 31 December 2020*		
	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	19.9	9.2	3.1	19.1	8.5	2.7
At Group level						
1% change in claims or expense ratio	19.6	6.9	2.7	18.9	6.4	2.3

*See note 4 on page 169 for further details.

As previously reported

	Year to 31 December 2020		
	Hiscox Retail \$m	Hiscox London Market \$m	Hiscox Re & ILS \$m
At 100% level (note 4(b))			
1% change in claims or expense ratio	20.1	7.5	2.7
At Group level			
1% change in claims or expense ratio	19.8	5.5	2.3

(b) 100% operating result by segment

	Year to 31 December 2021					Year to 31 December 2020*				
	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	2,323.7	1,583.5	887.9	–	4,795.1	2,210.9	1,502.9	818.5	–	4,532.3
Net premiums written	1,995.7	958.8	324.4	–	3,278.9	1,929.9	873.3	224.9	–	3,028.1
Net premiums earned	1,985.0	924.1	313.3	–	3,222.4	1,910.7	850.0	269.4	–	3,030.1
Investment result	26.7	15.7	8.7	(0.3)	50.8	109.7	64.2	35.6	–	209.5
Other income	19.1	11.9	10.0	2.4	43.4	16.6	10.3	11.3	2.4	40.6
Claims and claim adjustment expenses, net of reinsurance	(991.7)	(457.8)	(125.2)	–	(1,574.7)	(1,449.8)	(406.6)	(266.7)	–	(2,123.1)
Expenses for the acquisition of insurance contracts	(531.8)	(252.5)	(16.6)	–	(800.9)	(511.8)	(238.8)	(32.9)	–	(783.5)
Operational expenses	(439.1)	(114.0)	(71.1)	(28.6)	(652.8)	(395.3)	(113.0)	(55.6)	(38.9)	(602.8)
Net foreign exchange (losses)/gains	–	–	–	(1.2)	(1.2)	–	–	–	(12.6)	(12.6)
Results of operating activities	68.2	127.4	119.1	(27.7)	287.0	(319.9)	166.1	(38.9)	(49.1)	(241.8)

*See note 4 on page 169 for further details.

4 Operating segments

(b) 100% operating result by segment continued

	Year to 31 December 2020				
As previously reported	Hiscox Retail \$m	Hiscox London Market \$m	Hiscox Re & ILS \$m	Corporate Centre \$m	Total \$m
Gross premiums written	2,303.3	1,410.5	818.5	–	4,532.3
Net premiums written	2,015.1	788.1	224.9	–	3,028.1
Net premiums earned	2,007.6	753.1	269.4	–	3,030.1
Investment result	113.8	60.1	35.6	–	209.5
Other income	16.6	10.3	11.3	2.4	40.6
Claims and claim adjustment expenses, net of reinsurance	(1,449.1)	(407.3)	(266.7)	–	(2,123.1)
Expenses for the acquisition of insurance contracts	(550.6)	(200.0)	(32.9)	–	(783.5)
Operational expenses	(409.8)	(98.5)	(55.6)	(38.9)	(602.8)
Net foreign exchange (losses)/gains	–	–	–	(12.6)	(12.6)
Results of operating activities	(271.5)	117.7	(38.9)	(49.1)	(241.8)

Segment results at the 100% level presented above differ from those presented at the Group's share at note 4(a) solely as a result of the Group not owning 100% of the capacity of Syndicate 33 at Lloyd's.

(c) Geographical information

The Group's operational segments underwrite business domestically in Bermuda and from locations in the UK, 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 2021					Year to 31 December 2020*				
	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	815.7	90.8	31.9	–	938.4	759.2	63.8	28.8	–	851.8
Europe	456.1	70.9	33.6	–	560.6	426.1	66.1	24.5	–	516.7
USA	934.3	719.4	487.2	–	2,140.9	903.2	710.6	512.9	–	2,126.7
Rest of world	71.4	271.8	263.8	–	607.0	58.5	280.6	236.9	–	576.0
	2,277.5	1,152.9	816.5	–	4,246.9	2,147.0	1,121.1	803.1	–	4,071.2

*See note 4 on page 169 for further details.

	Year to 31 December 2020				
As previously reported	Hiscox Retail \$m	Hiscox London Market \$m	Hiscox Re & ILS \$m	Corporate Centre \$m	Total \$m
UK	768.9	54.1	28.8	–	851.8
Europe	438.7	53.5	24.5	–	516.7
USA	918.7	695.1	512.9	–	2,126.7
Rest of world	113.4	225.7	236.9	–	576.0
	2,239.7	1,028.4	803.1	–	4,071.2

4 Operating segments

(c) Geographical information continued

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	2021 total \$m	2020 total \$m
UK	222.5	250.5
Europe	46.5	12.8
USA	128.7	138.6
Rest of world	11.5	11.3
	409.2	413.2

5 Net asset value per share and net tangible asset value per share

	2021 net asset value (total equity) \$m	2021 net asset value per share cents	2020 net asset value (total equity) \$m	2020 net asset value per share cents
Net asset value	2,539.3	739.8	2,353.9	689.0
Net tangible asset value	2,226.2	648.6	2,055.0	601.5

The net asset value per share is based on 343,232,855 shares (2020: 341,647,634 shares), being the shares in issue at 31 December 2021, 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 546.2p (2020: 503.9p).

6 Return on equity

	2021 \$m	2020 \$m
Profit/(loss) for the year (all attributable to owners of the Company)	189.5	(293.7)
Opening total equity	2,353.9	2,189.7
Adjusted for the time-weighted impact of capital distributions and issuance of shares	(11.3)	307.8
Adjusted opening total equity	2,342.6	2,497.5
Return on equity (%)	8.1	(11.8)

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	2021 \$m	2020 \$m
Investment income including interest receivable		88.1	107.4
Net realised gains on financial investments at fair value through profit or loss		25.2	45.5
Net fair value (losses)/gains on financial investments at fair value through profit or loss		(57.9)	51.2
Investment result – financial assets	8	55.4	204.1
Net fair value gains/(losses) on derivative financial instruments	19	1.7	(2.1)
Investment expenses		(5.9)	(4.5)
Total result		51.2	197.5

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:

	2021 %	2020 %
US Dollar	0.4	3.3
Sterling	1.5	2.3
Euro	1.1	0.3
Other	0.0	2.1

(b) Investment return

	2021 return \$m	2021 yield %	2020* return \$m	2020* yield %
Debt and fixed income holdings	(11.4)	(0.2)	154.6	3.0
Equities and investment funds	66.2	11.6	45.1	10.5
Deposits with credit institutions/cash and cash equivalents	0.6	0.0	4.4	0.3
Investment result – financial assets	55.4	0.7	204.1	2.8

*Returns from certain debt and bond funds have been reallocated from investment funds to debt and fixed income to better reflect the nature of the investments. There is no impact on the total investment result.

9 Other income and operational expenses

	2021 \$m	2020 \$m
Agency-related income	27.7	22.1
Profit commission	4.8	1.5
Other underwriting income	0.2	2.5
Other income	24.1	24.1
Other income	56.8	50.2
Wages and salaries	228.9	188.7
Social security costs	30.8	33.1
Pension cost – defined contribution	17.3	13.1
Pension cost – defined benefit	1.0	1.1
Share-based payments	24.0	10.3
Temporary staff costs	39.6	40.2
Travel and entertainment	5.6	6.2
Legal and professional	71.6	63.0
Office costs	13.6	15.7
Computer costs	53.8	58.6
Depreciation, amortisation and impairment	58.3	56.8
Other expenses	78.2	86.2
Operational expenses	622.7	573.0

Agency-related income relates to commission received from a non-Group insurer by an insurance intermediary ('agency') for placement services and in limited cases claims handling services. Commission income associated with the placement services 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 underwriting income represents results from the insurance-linked securities managed by the Group and other income includes management fees which are recognised when the investment management services are rendered to the ILS funds.

As a result of the disposal of Crystal Ridge subsidiary for \$21.4 million on 1 June 2021, the Group has de-recognised the relevant assets and liabilities and made a gain on disposal 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 \$56.6 million (2020: \$59.4 million).

10 Finance costs

	Note	2021 \$m	2020 \$m
Interest charge associated with borrowings	17	30.7	28.6
Interest and expenses associated with bank borrowing facilities		7.5	10.7
Interest and charges associated with Letters of Credit	30	5.0	2.4
Other interest expenses*		7.6	2.3
Finance costs		50.8	44.0

*Including interest expenses on lease liabilities of \$1.2 million (2020: \$1.4 million) and interest and charges 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	2021 \$m	2020 \$m
Amounts receivable by the auditor and its associates in respect of:		
The auditing of the accounts of the Group and its subsidiaries	4.6	3.3
All audit-related assurance services	0.3	0.4
All other non-audit services	–	0.1
	4.9	3.8

The auditing of the Group and its subsidiaries in 2021 includes audit work relating to the implementation of IFRS 17 *Insurance Contracts* of \$0.3 million (2020: \$nil) and \$0.5 million relating to the audit of subsidiaries for the year-end 2020. 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 2020						
Cost	13.4	33.1	8.5	269.3	66.5	390.8
Accumulated amortisation and impairment	(5.1)	–	–	(67.2)	(40.5)	(112.8)
Net book amount	8.3	33.1	8.5	202.1	26.0	278.0
Year ended 31 December 2020						
Opening net book amount	8.3	33.1	8.5	202.1	26.0	278.0
Additions	–	–	–	62.5	–	62.5
Disposals	–	–	–	–	(12.8)	(12.8)
Amortisation charges	–	–	–	(27.3)	(4.3)	(31.6)
Impairment charge	–	–	–	–	(0.2)	(0.2)
Foreign exchange movements	0.5	–	–	4.6	(2.1)	3.0
Closing net book amount	8.8	33.1	8.5	241.9	6.6	298.9
At 31 December 2020						
Cost	13.9	33.1	8.5	336.4	40.4	432.3
Accumulated amortisation and impairment	(5.1)	–	–	(94.5)	(33.8)	(133.4)
Net book amount	8.8	33.1	8.5	241.9	6.6	298.9
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

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12 Goodwill and intangible assets continued

Goodwill

Goodwill is allocated to the Group's cash-generating units (CGUs) identified according to the smallest identifiable unit to which cash flows are generated. \$7.2 million (2020: \$7.6 million) is allocated to the Lloyd's corporate member entity CGU and \$1.1 million (2020: \$1.2 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 2021, there was an impairment charge on goodwill of \$0.3 million (2020: \$nil).

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 8.0% to 8.5%, depending on the underlying currency (2020: 7.0% to 8.5%), has been applied to the projections to determine the net present value. The outcome of the value in use calculation is measured against the carrying value of the asset and, where the carrying value is in excess of the value in use, the asset is written down to this amount.

Impairment assessments

To test the sensitivity to variances, management flexed the key assumptions within a reasonably expected range. Within this range, goodwill and other intangible assets recoveries were stress tested and remain supportable across all cash-generating units or assets.

Intangible assets

All intangible assets have a finite useful life except for the Syndicate capacity and US state authorisation licences.

(a) Syndicate capacity

The cost of purchasing the Group's participation in the Lloyd's insurance syndicates is not amortised but is tested annually for impairment and is carried at cost less accumulated impairment losses. Having considered the future prospects of the London insurance market, the Board believes that the Group's ownership of Syndicate capacity will provide economic benefits over an indefinite number of future periods. This assumption is reviewed annually to determine whether the asset continues to have an indefinite life.

The Group's intangible asset relating to Syndicate capacity has been allocated, for impairment testing purposes, to one individual CGU, being the active Lloyd's corporate member entity. The asset is tested annually for impairment based on its recoverable amount which is considered to be the higher of the asset's fair value less costs to sell or its value in use. The fair value of Syndicate capacity can be determined from the Lloyd's Syndicate capacity auctions. The value in use is determined using cash flow projections based on business plans approved by management and discounted at the applicable WACC rate. At 31 December 2021, 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 WACC rate. Key assumptions include new business growth, retention rates, market cycle and claims inflation. The results of the test show there is no impairment.

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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 2021 (2020: \$nil).

At 31 December 2021 there were \$27.3 million of assets under development on which amortisation has yet to be charged (2020: \$16.4million).

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 2021 (2020: \$0.2 million).

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 2020						
Opening net book amount	24.9	7.3	29.0	66.2	1.0	128.4
Additions	–	0.3	8.8	3.2	1.0	13.3
Disposals	(0.5)	(3.6)	(4.5)	(4.1)	–	(12.7)
Depreciation charge	(1.2)	(1.3)	(5.6)	(13.1)	(0.6)	(21.8)
Foreign exchange movements	–	(0.1)	1.1	1.2	–	2.2
Closing net book amount	23.2	2.6	28.8	53.4	1.4	109.4
At 31 December 2020						
Cost	30.2	13.6	61.1	79.7	2.7	187.3
Accumulated depreciation	(7.0)	(11.0)	(32.3)	(26.3)	(1.3)	(77.9)
Net book amount	23.2	2.6	28.8	53.4	1.4	109.4
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

The Group's land and buildings assets relate to freehold property in the UK. There was an impairment charge during the year of \$nil (2020: \$nil).

The assets are expected to be recovered or settled more than 12 months after the reporting date and as such are considered to be non-current.

The income from subleasing right-of-use assets amounted to \$0.7 million (2020: \$0.8 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 2021, HDCM owned 72.6% of Syndicate 33 (2020: 72.6%), and 100% of Syndicate 3624 (2020: 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 Ltd (formerly known as Kiskadee Investment Managers Ltd) 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 Ltd 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 Ltd, 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 2021, the Group recognised a financial asset at fair value of \$50.9 million (2020: \$63.2 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 \$593 million at 31 December 2021 (2020: \$899 million). In addition to the return on the financial asset, the Group also receives fee income through Hiscox Re Insurance Linked Strategies Ltd and Hiscox Insurance Company (Bermuda) Limited, both wholly owned subsidiaries, under normal commercial terms.

The Group is exposed to credit risk associated with reinsurance recoverables on risks fronted for the SPIs. Note 3.3(d) discusses how the Group manages credit risk associated with reinsurance assets. The operations of the funds and SPIs are financed through the issuance of preference shares to external investors. The Group does not intend to provide any further financial support to the funds or SPIs.

(c) Investments in associates

Year ended 31 December	2021 \$m	2020 \$m
At beginning of year	4.9	8.6
Impairments	–	(3.2)
Distributions received	(0.2)	(0.2)
Net profit/(loss) from investments in associates	0.8	(0.3)
Foreign exchange movements	0.2	–
At end of year	5.7	4.9

The Group's interests in its principal associates, all of which are unlisted, were as follows:

		100% results			
	% interest held at 31 December	Assets \$m	Liabilities \$m	Revenues \$m	Profit after tax \$m
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
2020					
Associates incorporated in the UK and USA	from 29% to 35%	18.6	15.9	12.2	(2.1)
Associates incorporated in Europe	26%	4.4	2.3	2.5	1.2
Total at the end of 2020		23.0	18.2	14.7	(0.9)

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

	2021			2020		
	Gross \$m	Reinsurance \$m	Net \$m	Gross \$m	Reinsurance \$m	Net \$m
Balance deferred at 1 January	439.2	(106.9)	332.3	456.1	(124.7)	331.4
Acquisition costs incurred in relation to insurance contracts written	1,021.3	(288.2)	733.1	977.3	(269.8)	707.5
Acquisition costs expensed to the income statement*	(1,017.9)	283.2	(734.7)	(1,002.9)	289.0	(713.9)
Foreign exchange and other adjustments	(5.7)	1.9	(3.8)	8.7	(1.4)	7.3
Balance deferred at 31 December	436.9	(110.0)	326.9	439.2	(106.9)	332.3

*Including unexpired risk reserve write-off of \$nil million (2020: \$6.6 million).

The deferred amount of insurance contract acquisition costs attributable to reinsurers of \$110.0 million (2020: \$106.9 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:

	2021 \$m	2020 \$m
Within one year	245.6	236.7
After one year	81.3	95.6
	326.9	332.3

16 Reinsurance assets

	Note	2021 \$m	2020 \$m
Reinsurers' share of insurance liabilities		3,908.5	3,645.0
Provision for non-recovery and impairment		(0.5)	(0.4)
Reinsurance assets	23	3,908.0	3,644.6

The amounts expected to be recovered before and after one year, based on historical experience, are estimated as follows:

Within one year	1,919.5	1,798.1
After one year	1,988.5	1,846.5
	3,908.0	3,644.6

Amounts due from reinsurers in respect of outstanding premiums and claims already paid by the Group are included in loans and receivables (note 18). The Group recognised a loss during the year of \$0.1 million (2020: gain of \$0.4 million) due to movement on the provision for non-recovery and impairment.

During the year, the Group completed two loss portfolio transfer (LPT) agreements. 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	2021 \$m	2020* \$m
Debt and fixed income holdings		5,528.1	5,588.3
Equities and investment funds		461.2	464.5
Total investments		5,989.3	6,052.8
Insurance-linked funds		50.9	63.2
Derivative financial instruments	19	1.1	0.8
Total financial assets carried at fair value		6,041.3	6,116.8

*The 2020 figures have been re-presented for the re-allocation of certain debt and bond funds to debt and fixed income holdings.

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:

	2021 \$m	2020* \$m
Within one year	1,111.2	1,673.8
After one year	4,416.9	3,914.5
	5,528.1	5,588.3

*The 2020 figures have been re-presented for the re-allocation of certain debt and bond funds to debt and fixed income holdings.

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	2021 \$m	2020 \$m
Derivative financial instruments	19	0.2	0.6
Financial liabilities carried at fair value		0.2	0.6
		2021 \$m	2020 \$m
Borrowings		743.7	943.3
Accrued interest on borrowings		2.8	2.8
Financial liabilities carried at amortised cost		746.5	946.1
Total financial liabilities		746.7	946.7

All of the financial liabilities carried at fair value are due within one year. The amounts owed to credit institutions relate to outstanding investment trades in trust funds that are not available for offset against the same counterparty under cash and cash equivalents. These positions would be rated A had they have been recorded under cash and cash equivalents. The long-term debt issued on 14 March 2018 is due within one year, and the remaining long-term debt is 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 will be redeemed on the maturity date at their principal amount together with accrued interest.

The notes bear interest from, and including, 14 March 2018 at a fixed rate of 2% per annum annually in arrears starting 14 December 2018 until maturity on 14 December 2022.

On 14 March 2018, the notes were admitted for trading on the Luxembourg Stock Exchange's Euro MTF. The notes were rated BBB+ by S&P as well as by Fitch.

The fair value of the borrowings is estimated at \$797.3 million (2020: \$822.6 million). The fair value measurement is classified within Level 1 of the fair value hierarchy. The fair value is estimated by reference to the actively traded value on the stock exchanges.

The decrease in the carrying value of the borrowings and accrued interest during the year comprises repayment of short-term borrowings of \$195.7 million (2020: addition of \$180.6 million), the amortisation of the difference between the net proceeds received and the redemption amounts of \$0.8 million (2020: \$0.8 million), the reduction in accrued interest of \$0.1 million (2020: increase of \$0.1 million) less exchange movements of \$4.6 million (2020: plus exchange movements of \$36.4 million).

Note 10 includes details of the interest expense for the year included in finance costs.

17 Financial assets and liabilities continued

Investments at 31 December are denominated in the following currencies at their fair value:

	2021 \$m	2020* \$m
Debt and fixed income holdings		
US Dollars	3,890.0	3,887.8
Sterling	957.9	990.4
Euro and other currencies	680.2	710.1
	5,528.1	5,588.3
Equities and investment funds		
US Dollars	206.9	209.5
Sterling	223.0	229.3
Euro and other currencies	31.3	25.7
	461.2	464.5
Total investments	5,989.3	6,052.8

*The 2020 figures have been re-presented for the re-allocation of certain debt and bond funds to debt and fixed income holdings.

18 Loans and receivables including insurance receivables

	2021 \$m	2020 \$m
Gross receivables arising from insurance and reinsurance contracts	1,568.9	1,453.8
Provision for impairment	(7.3)	(5.1)
Net receivables arising from insurance and reinsurance contracts	1,561.6	1,448.7
Due from contract holders, brokers, agents and intermediaries	918.3	880.2
Due from reinsurance operations	643.3	568.5
	1,561.6	1,448.7
Prepayments and accrued income	26.0	26.9
Other loans and receivables:		
Net profit commission receivable	4.9	8.1
Accrued interest	23.7	26.5
Share of Syndicates' other debtors' balances	25.3	43.0
Other debtors including related party amounts	36.7	38.0
Total loans and receivables including insurance receivables	1,678.2	1,591.2

The amounts expected to be recovered before and after one year are estimated as follows:

Within one year	1,500.4	1,517.4
After one year	177.8	73.8
	1,678.2	1,591.2

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 Group has recognised a loss of \$2.2 million (2020: release of \$2.3 million) for the impairment of receivables during the year ended 31 December 2021. This is recorded under operational expenses in the consolidated income statement. The carrying amounts disclosed above are reasonably approximate to the fair value at the reporting date.

19 Derivative financial instruments

The Group entered into both exchange-traded and over-the-counter derivative contracts for a number of purposes during 2021. 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 2021 all mature within one year of the balance sheet date and are detailed below:

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

31 December 2020	Gross contract notional amount \$m	Fair value of assets \$m	Fair value of liabilities \$m	Net balance sheet position \$m
Derivative financial instruments included on balance sheet				
Foreign exchange forward contracts	56.2	0.8	(0.5)	0.3
Interest rate futures contracts	86.2	–	(0.1)	(0.1)

The foreign exchange forward contracts are represented by gross fair value of assets and liabilities as detailed below:

Gross fair value of assets	41.4	13.4	54.8
Gross fair value of liabilities	(40.6)	(13.9)	(54.5)
	0.8	(0.5)	0.3

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 \$0.2 million (2020: loss of \$1.7 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 \$1.5 million (2020: loss of \$0.4 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 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
As at 31 December 2020*				
Financial assets				
Debt and fixed income holdings	1,191.4	4,396.9	–	5,588.3
Equities and investment funds	–	419.0	45.5	464.5
Insurance-linked funds	–	–	63.2	63.2
Derivative financial instruments	–	0.8	–	0.8
Total	1,191.4	4,816.7	108.7	6,116.8
Financial liabilities				
Derivative financial instruments	–	0.6	–	0.6
Total	–	0.6	–	0.6

*The 2020 figures have been re-presented for the re-allocation of certain debt and bond funds to debt and fixed income holdings and corporate bond levels, see detail below.

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.

Management has refined the criteria for financial assets being allocated to Level 1, and certain corporate bonds considered to have quoted prices in active markets are now included in Level 1. Previously no corporate bonds were included in Level 1. In 2021, \$32.6 million of corporate bonds have been recognised in Level 1 and \$72.6 million have been re-presented from Level 2 to Level 1 for 2020. There is no impact on profit in current or future periods. There were no transfers in or out of Level 3 of the fair value hierarchy.

Included within Level 1 of the fair value hierarchy are certain government bonds, treasury bills, corporate bonds and exchange-traded equities which are measured based on quoted prices in active markets.

The fair value of the borrowings carried at amortised cost is estimated at \$797.3 million (2020: \$822.6 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

20 Fair value measurements continued

provided and validates the price through a number of methods including a comparison of the prices provided by the investment managers with the investment custodians and the valuation used by external parties to derive fair value. Quoted prices for US government agencies and corporate securities are based on a limited number of transactions for those securities and as such the Group considers these instruments to have similar characteristics to those instruments classified as Level 2. Also included within Level 2 are units held in collective investment vehicles investing in traditional and alternative investment strategies and over-the-counter derivatives.

Level 3 contains investments in a limited partnership, unquoted equity securities and insurance-linked funds which have limited observable inputs on which to measure fair value. Unquoted equities, including equity instruments in limited partnerships, are carried at fair value. Fair value is determined to be net asset value for the limited partnerships, and for the equity holdings it is determined to be the latest available traded price. The effect of changing one or more inputs used in the measurement of fair value of these instruments to another reasonably possible assumption would not be significant. At 31 December 2021, the insurance-linked funds of \$50.9 million represent the Group's investment in the unconsolidated Kiskadee Funds (2020: \$63.2 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 \$2.9 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.

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			
	Debt and fixed income holdings \$m	Equities and investment funds \$m	Insurance- linked funds \$m	Total \$m
31 December 2021				
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 gains/(losses)	–	(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)

*Fair value gains/(losses) are included within the investment result in the income statement for debt and fixed income holdings, and for equities and investment funds and through other income for the insurance-linked funds.

	Financial assets		
	Equities and investment funds \$m	Insurance- linked funds \$m	Total \$m
31 December 2020			
Balance at 1 January	18.5	61.2	79.7
Fair value gains or losses through profit or loss*	(5.4)	2.7	(2.7)
Foreign exchange gains	1.9	–	1.9
Purchases	30.8	2.6	33.4
Settlements	(0.3)	(3.3)	(3.6)
Closing balance	45.5	63.2	108.7
Unrealised gains and (losses) in the year on securities held at the end of the year	(0.4)	2.7	2.3

*Fair value gains/(losses) are included within the investment result in the income statement for equities and investment funds and through other income for the insurance-linked funds.

21 Cash and cash equivalents

	2021 \$m	2020 \$m
Cash at bank and in hand	1,287.3	1,448.8
Short-term deposits	13.4	128.4
Total	1,300.7	1,577.2

The Group holds its cash deposits with a well-diversified range of banks and financial institutions. Cash includes overnight deposits. Short-term deposits include debt securities with an original maturity date of less than three months and money market funds.

22 Share capital

Group	31 December 2021		31 December 2020	
	Share capital \$m	Number of shares 000	Share capital \$m	Number of shares 000
Authorised ordinary share capital of 6.5p (2020: 6.5p)	425.8	3,692,308	425.8	3,692,308
Issued ordinary share capital of 6.5p (2020: 6.5p)	38.7	353,986	38.7	353,955

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 2020	34,051	70,503	183,969
Equity raise – May 2020	4,595	444,503	–
Employee share option scheme – proceeds from shares issued	13	1,446	–
At 31 December 2020	38,659	516,452	183,969
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

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 (2020: 1,958,864 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 (000) 2021	Number of ordinary shares in issue (000) 2020
At 1 January		353,955	296,108
Equity raise – May 2020		–	57,693
Employee share option scheme – ordinary shares issued		11	154
Scrip Dividends to owners of the Company	29	20	–
At 31 December		353,986	353,955

All issued shares are fully paid.

22 Share capital continued

Share options and Performance Share Plan awards

Performance Share Plan awards are granted to Directors and senior employees. No exercise price is attached to performance plan awards, although their attainment is conditional on the employee completing three years' service (the vesting period) and the Group achieving targeted levels of returns on equity for pre-2018 awards and net asset value targets for awards from 2018 to 2020. Awards granted in 2021 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.

In accordance with IFRS 2, the Group recognises an expense for the fair value of 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 \$24.0 million (2020: expense of \$10.3 million). This comprises an expense of \$16.6 million (2020: expense of \$10.1 million) in respect of Performance Share Plan awards and an expense of \$7.4 million (2020: expense of \$0.2 million) in respect of share option awards. The Group has applied the principles outlined in the Black-Scholes option pricing model when determining the fair value of each share option instrument. For the fair value pricing of performance share plans, the Group uses the share price on the date of grant of the options. In 2021, 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	2021	2020
Annual risk-free rates of return and discount rates (%)	0.18-0.26	(0.12)-0.08
Long-term dividend yield (%)	1.46	2.19
Expected life of options (years)	3.25	3.25
Implied volatility of share price (%)	46.2	41.0
Weighted average share price (p)	865.3	819.7

The weighted average fair value of each share option granted during the year was 317.5p (2020: 225.1p). The weighted average fair value of each Performance Share Plan award granted during the year was 862.3p (2020: 836.5p).

Movements in the number of share options and Performance Share Plan awards during the year and details of the balances outstanding at 31 December 2021 for the Executive Directors are shown in the annual report on remuneration 2021. The total number of options and Performance Share Plan awards outstanding is 9,743,754 (2020: 9,349,986) of which 1,629,224 are exercisable (2020: 1,979,101). The total number of SAYE options outstanding is 2,414,729 (2020: 2,642,893).

The implied volatility assumption is based on historical data for periods of between five and ten years immediately preceding grant date.

For options issued after 1 January 2006, the assumptions regarding long-term dividend yield have been aligned to the progressive dividend policy announced during the 2005 Rights Issue.

23 Insurance liabilities and reinsurance assets

	Note	2021 \$m	2020 \$m
Gross			
Claims reported and claim adjustment expenses		2,506.1	2,688.0
Unexpired risk reserve		–	31.5
Claims incurred but not reported		4,539.8	4,571.9
Unearned premiums		1,822.5	1,822.0
Total insurance liabilities, gross		8,868.4	9,113.4
Recoverable from reinsurers			
Claims reported and claim adjustment expenses		1,143.3	976.7
Unexpired risk reserve		–	8.6
Claims incurred but not reported		2,349.5	2,227.7
Unearned premiums		415.2	431.6
Total reinsurers' share of insurance liabilities	16	3,908.0	3,644.6
Net			
Claims reported and claim adjustment expenses		1,362.8	1,711.3
Unexpired risk reserve		–	22.9
Claims incurred but not reported		2,190.3	2,344.2
Unearned premiums		1,407.3	1,390.4
Total insurance liabilities, net		4,960.4	5,468.8

The net amounts expected to be recovered and settled before and after one year, based on historical experience, are estimated as follows:

	2021 \$m	2020 \$m
Within one year	3,155.1	3,323.8
After one year	1,805.3	2,145.0
	4,960.4	5,468.8

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 2021 and 2020 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 2021 was 11.7% above the best estimate (2020: 9.8%). This includes margin for the uncertainty in Covid-19 claims estimates.

(b) Claims development tables

The development of insurance liabilities provides a measure of the Group's ability to estimate the ultimate value of claims. The Group analyses actual claims development compared with previous estimates on an accident year basis. This exercise is performed to include the liabilities of Syndicate 33 at the 100% level regardless of the Group's actual level of ownership. Analysis at the 100% level is required in order to avoid distortions arising from reinsurance to close arrangements which subsequently increase the Group's share of ultimate claims for each accident year, three years after the end of that accident year.

The top half of each table, on the following pages, illustrates how estimates of ultimate 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	2012 \$m	2013 \$m	2014 \$m	2015 \$m	2016 \$m	2017 \$m	2018 \$m	2019 \$m	2020 \$m	2021 \$m	Total \$m
Estimate of ultimate claims costs as adjusted for foreign exchange* at end of accident year:											
one year later	1,656.5	1,328.7	1,451.2	1,560.9	1,942.0	3,390.2	3,139.3	3,368.1	3,800.5	3,046.5	24,683.9
two years later	1,711.6	1,211.3	1,237.7	1,422.1	1,724.0	3,102.9	3,592.1	3,104.5	3,806.6	–	20,912.8
three years later	1,602.6	1,083.3	1,146.0	1,285.4	1,632.2	3,068.2	3,411.2	2,889.8	–	–	16,118.7
four years later	1,607.1	1,019.4	1,096.7	1,280.7	1,663.3	2,986.4	3,179.4	–	–	–	12,833.0
five years later	1,593.9	966.3	1,071.8	1,296.8	1,698.9	2,902.9	–	–	–	–	9,530.6
six years later	1,337.1	942.6	1,052.9	1,325.4	1,691.6	–	–	–	–	–	6,349.6
seven years later	1,343.4	937.1	1,037.5	1,318.4	–	–	–	–	–	–	4,636.4
eight years later	1,320.6	938.5	1,037.3	–	–	–	–	–	–	–	3,296.4
nine years later	1,290.6	936.7	–	–	–	–	–	–	–	–	2,227.3
Current estimate of cumulative claims	1,272.7	936.7	1,037.3	1,318.4	1,691.6	2,902.9	3,179.4	2,889.8	3,806.6	3,046.5	22,081.9
Cumulative payments to date	(1,223.3)	(898.9)	(955.0)	(1,142.4)	(1,426.4)	(2,338.1)	(2,305.6)	(1,685.9)	(1,656.9)	(525.3)	(14,157.8)
Liability recognised at 100% level	49.4	37.8	82.3	176.0	265.2	564.8	873.8	1,203.9	2,149.7	2,521.2	7,924.1
Liability recognised in respect of accident years before 2012 at 100% level											124.9
Total gross liability to external parties at 100% level											8,049.0

*The foreign exchange adjustment arises from the retranslation of the estimates at each date using the exchange rate ruling at 31 December 2021.

Reconciliation of 100% disclosures above to Group's share – gross

Accident year	2012 \$m	2013 \$m	2014 \$m	2015 \$m	2016 \$m	2017 \$m	2018 \$m	2019 \$m	2020 \$m	2021 \$m	Total \$m
Current estimate of cumulative claims	1,272.7	936.7	1,037.3	1,318.4	1,691.6	2,902.9	3,179.4	2,889.8	3,806.6	3,046.5	22,081.9
Less: attributable to external Names	(163.4)	(97.8)	(107.8)	(138.4)	(185.1)	(399.8)	(397.8)	(399.2)	(445.9)	(363.2)	(2,698.4)
Group's share of current ultimate claims estimate	1,109.3	838.9	929.5	1,180.0	1,506.5	2,503.1	2,781.6	2,490.6	3,360.7	2,683.3	19,383.5
Cumulative payments to date	(1,223.3)	(898.9)	(955.0)	(1,142.4)	(1,426.4)	(2,338.1)	(2,305.6)	(1,685.9)	(1,656.9)	(525.3)	(14,157.8)
Less: attributable to external Names	156.3	93.4	100.1	118.5	152.6	323.7	284.6	234.5	198.7	65.5	1,727.9
Group's share of cumulative payments	(1,067.0)	(805.5)	(854.9)	(1,023.9)	(1,273.8)	(2,014.4)	(2,021.0)	(1,451.4)	(1,458.2)	(459.8)	(12,429.9)
Liability recognised on Group's balance sheet	42.3	33.4	74.6	156.1	232.7	488.7	760.6	1,039.2	1,902.5	2,223.5	6,953.6
Liability for accident years before 2012 recognised on Group's balance sheet											92.3
Total Group liability to external parties included in balance sheet – gross											7,045.9

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	2012 \$m	2013 \$m	2014 \$m	2015 \$m	2016 \$m	2017 \$m	2018 \$m	2019 \$m	2020 \$m	2021 \$m	Total \$m
Estimate of ultimate claims costs as adjusted for foreign exchange* at end of accident year:											
one year later	1,198.2	1,133.3	1,176.8	1,255.2	1,471.6	1,852.2	1,799.4	1,786.1	2,204.2	1,754.6	15,631.6
two years later	1,058.3	1,006.3	1,034.8	1,160.0	1,334.0	1,654.1	1,814.0	1,725.3	2,058.9	–	12,845.7
three years later	982.3	904.7	939.7	1,064.0	1,262.4	1,633.8	1,777.8	1,518.8	–	–	10,083.5
four years later	947.0	838.3	884.1	1,056.9	1,285.1	1,621.5	1,593.5	–	–	–	8,226.4
five years later	937.3	834.4	857.0	1,056.0	1,324.8	1,497.5	–	–	–	–	6,507.0
six years later	957.6	807.4	834.3	1,084.4	1,258.0	–	–	–	–	–	4,941.7
seven years later	946.9	804.7	828.8	1,043.1	–	–	–	–	–	–	3,623.5
eight years later	927.0	805.0	816.0	–	–	–	–	–	–	–	2,548.0
nine years later	917.5	789.3	–	–	–	–	–	–	–	–	1,706.8
Current estimate of cumulative claims	910.1	789.3	816.0	1,043.1	1,258.0	1,497.5	1,593.5	1,518.8	2,058.9	1,754.6	13,239.8
Cumulative payments to date	(861.2)	(767.8)	(730.0)	(889.3)	(1,070.7)	(1,317.6)	(1,256.8)	(1,078.7)	(975.2)	(373.3)	(9,320.6)
Liability recognised at 100% level	48.9	21.5	86.0	153.8	187.3	179.9	336.7	440.1	1,083.7	1,381.3	3,919.2
Liability recognised in respect of accident years before 2012 at 100% level											103.9
Total net liability to external parties at 100% level											4,023.1

*The foreign exchange adjustment arises from the retranslation of the estimates at each date using the exchange rate ruling at 31 December 2021.

Current estimate of cumulative claims in the table above has been impacted by the loss portfolio transfer arrangements taken out in 2021, see note 23.2.

Reconciliation of 100% disclosures above to Group's share – net of reinsurance

Accident year	2012 \$m	2013 \$m	2014 \$m	2015 \$m	2016 \$m	2017 \$m	2018 \$m	2019 \$m	2020 \$m	2021 \$m	Total \$m
Current estimate of cumulative claims	910.1	789.3	816.0	1,043.1	1,258.0	1,497.5	1,593.5	1,518.8	2,058.9	1,754.6	13,239.8
Less: attributable to external Names	(93.7)	(79.5)	(81.3)	(112.3)	(133.0)	(154.1)	(157.0)	(188.3)	(208.9)	(183.9)	(1,392.0)
Group's share of current ultimate claims estimate	816.4	709.8	734.7	930.8	1,125.0	1,343.4	1,436.5	1,330.5	1,850.0	1,570.7	11,847.8
Cumulative payments to date	(861.2)	(767.8)	(730.0)	(889.3)	(1,070.7)	(1,317.6)	(1,256.8)	(1,078.7)	(975.2)	(373.3)	(9,320.6)
Less: attributable to external Names	87.3	75.6	74.8	93.3	105.0	131.2	116.9	128.4	95.9	39.2	947.6
Group's share of cumulative payments	(773.9)	(692.2)	(655.2)	(796.0)	(965.7)	(1,186.4)	(1,139.9)	(950.3)	(879.3)	(334.1)	(8,373.0)
Liability recognised on Group's balance sheet	42.5	17.6	79.5	134.8	159.3	157.0	296.6	380.2	970.7	1,236.6	3,474.8
Liability for accident years before 2012 recognised on Group's balance sheet											78.3
Total Group liability to external parties included in balance sheet – net*											3,553.1

*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	2021			2020		
	Gross \$m	Reinsurance \$m	Net \$m	Gross \$m	Reinsurance \$m	Net \$m
Total at beginning of year	7,291.4	(3,213.0)	4,078.4	6,276.0	(2,921.0)	3,355.0
Claims and claim adjustment expenses for the year	2,185.5	(755.1)	1,430.4	2,966.5	(1,043.8)	1,922.7
Cash (paid)/received for claims settled in the year	(2,331.8)	1,082.8	(1,249.0)	(2,085.0)	768.8	(1,316.2)
Acquisitions, divestments and transfers	–	(639.0)	(639.0)	–	–	–
Foreign exchange and other adjustments	(99.2)	31.5	(67.7)	133.9	(17.0)	116.9
Total at end of year	7,045.9	(3,492.8)	3,553.1	7,291.4	(3,213.0)	4,078.4
Claims reported and claim adjustment expenses	2,506.1	(1,143.3)	1,362.8	2,688.0	(976.7)	1,711.3
Claims incurred but not reported	4,539.8	(2,349.5)	2,190.3	4,571.9	(2,227.7)	2,344.2
Unexpired risk reserve	–	–	–	31.5	(8.6)	22.9
Total at end of year	7,045.9	(3,492.8)	3,553.1	7,291.4	(3,213.0)	4,078.4

The insurance claims expense reported in the consolidated income statement is comprised as follows:

Year ended 31 December	2021			2020* (restated)		
	Gross \$m	Reinsurance \$m	Net \$m	Gross \$m	Reinsurance \$m	Net \$m
Current year claims and claim adjustment expenses	2,775.0	(1,172.8)	1,602.2	3,448.0	(1,516.2)	1,931.8
Over-provision in respect of prior-year claims and claim adjustment expenses	(558.0)	409.1	(148.9)	(513.0)	481.0	(32.0)
Unexpired risk reserve	(31.5)	8.6	(22.9)	31.5	(8.6)	22.9
Total at end of year	2,185.5	(755.1)	1,430.4	2,966.5	(1,043.8)	1,922.7

*Restated for incorrect allocation of current year claims and claims adjustment expenses and over-provision in respect of prior-year claims and claim adjustment expenses. This has no impact on the total insurance claims expense, profit, insurance liabilities or reinsurance assets presented in the comparative period.

A reconciliation of the unearned premium reserves is as follows:

	2021			2020		
	Gross \$m	Reinsurance \$m	Net \$m	Gross \$m	Reinsurance \$m	Net \$m
Balance deferred at 1 January	1,822.0	(431.6)	1,390.4	1,818.5	(465.9)	1,352.6
Premiums written	4,269.2	(1,314.2)	2,955.0	4,033.1	(1,282.7)	2,750.4
Premiums earned through the income statement	(4,246.9)	1,327.0	(2,919.9)	(4,071.2)	1,319.0	(2,752.2)
Foreign exchange and other adjustments	(21.8)	3.6	(18.2)	41.6	(2.0)	39.6
Balance deferred at 31 December	1,822.5	(415.2)	1,407.3	1,822.0	(431.6)	1,390.4

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:

	2021 \$m	2020 \$m
Gross premiums written	4,269.2	4,033.1
Outward reinsurance premiums	(1,314.2)	(1,282.7)
Net premiums written	2,955.0	2,750.4
Change in gross unearned premium reserves	(22.3)	38.1
Change in reinsurers' share of unearned premium reserves	(12.8)	(36.3)
Change in net unearned premium reserves	(35.1)	1.8
Net premiums earned	2,919.9	2,752.2

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 loss portfolio transfers (LPTs) securing coverage for potential adverse development on historical liabilities for selected lines of business, including the majority of Hiscox USA's surplus lines broker business. The Group concluded that the LPTs transfer 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.

While the Group incurred additional losses early in 2021, due to additional UK lockdown measures in January, we have also benefitted from positive prior year development on first order Covid-19-related losses in our events and contingency book. Consequently there has been no material movement in Covid-19 losses for the year.

Lloyd's Part VII transfer

On 30 December 2020, the members and former members of the Syndicate, as comprised for each of the relevant years of account between 1993 and April 2019, transferred all relevant policies (and related liabilities) underwritten by them for those years of account to Lloyd's Insurance Company S.A. ('Lloyd's Brussels'), in accordance with Part VII of the Financial Services and Markets Act 2000. On the same date, the members of the Syndicate entered into a 100% quota share reinsurance agreement whereby Lloyd's Brussels reinsured all risks on the same policies back to the relevant open years of account of the Syndicate, which wrote the transferring policies and/or inherited liabilities on transferring policies through reinsurance to close of earlier years of account.

Following the sanction of the scheme by the High Court on 25 November 2020, the scheme took effect on 30 December 2020 and the members and former members of the Syndicate transferred the impacted EEA policies and related liabilities to Lloyd's Brussels, together with cash of \$154.8 million. On the same date, under the reinsurance agreement, Lloyd's Brussels reinsured the same risks back, together with an equal amount of cash of \$154.8 million and non-cash assets relating to the transferred liabilities. The combined effect of the two transactions had no economic impact for the Syndicate, and accordingly there is no impact on the Syndicate's income statement and no net impact on the balance sheet.

No adjustment has been made in the segmental note for transactions that occurred in respect of the transferred business up to the date of the transfer, which is consistent with the income statement presentation. Outstanding debtor and creditor balances in respect of the transferred business that were previously classified as arising out of direct reinsurance operations have been reclassified as arising out of reinsurance operations.

Current year underwriting results are reported under the inwards reinsurance class of business, reflecting the new contractual arrangement with Lloyd's Brussels.

24 Trade and other payables

	Note	2021 \$m	2020 \$m
Creditors arising out of direct insurance operations		96.3	101.0
Creditors arising out of reinsurance operations		1,152.2	836.0
		1,248.5	937.0
Share of Syndicates' other creditors' balances		2.6	1.8
Social security and other taxes payable		49.3	51.7
Lease liabilities		46.5	59.7
Other creditors		19.8	30.1
		118.2	143.3
Reinsurers' share of deferred acquisition costs	15	110.0	106.9
Accruals and deferred income		158.9	148.4
Total		1,635.6	1,335.6

Included within accruals and deferred income is \$nil (2020: \$4.9 million) of deferred gain on retroactive reinsurance contracts.

The amounts expected to be settled before and after one year are estimated as follows:

	2021 \$m	2020 \$m
Within one year	1,062.3	1,239.2
After one year	573.3	96.4
	1,635.6	1,335.6

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:

	2021 \$m	2020 \$m
Not later than one year	15.7	16.5
Later than one year and not later than five years	30.2	38.9
Later than five years	7.8	13.6
Total undiscounted lease liabilities at 31 December	53.7	69.0

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 2021 (2020: \$nil).

There were no leases with residual values guarantees (2020: none). The leases not yet commenced to which the Group is committed amounted to \$60.0 million (2020: \$55.2 million).

Payments associated with short-term leases amounting to \$1.2 million (2020: \$1.2 million) and leases of low-value assets amounting to \$0.1 million (2020: \$nil) 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:

	2021 \$m	2020 \$m
Current tax		
Expense for the year	9.5	11.5
Adjustments in respect of prior years	(5.1)	1.7
Total current tax expense	4.4	13.2
Deferred tax		
Expense/(credit) for the year	3.6	(12.3)
Adjustments in respect of prior years	(3.7)	26.4
Effect of rate change	(3.0)	(2.1)
Total deferred tax (credit)/expense	(3.1)	12.0
Total tax charged to the income statement	1.3	25.2

The standard rate of corporation tax in Bermuda is 0% whereas the effective rate of tax for the Group is 1% (2020: -9%).

A reconciliation of the difference is provided below:

	2021 \$m	2020 \$m
Profit/(loss) before tax	190.8	(268.5)
Tax calculated at the standard corporation tax rate applicable in Bermuda: 0% (2020: 0%)		
Effects of Group entities subject to overseas tax at different rates	2.3	(20.6)
Impact of overseas tax rates on:		
Effect of rate change	(3.0)	(2.1)
Expenses not deductible for tax purposes	2.5	2.7
Tax losses for which no deferred tax asset is recognised	9.3	8.6
Other	(1.5)	8.7
Adjustment for share-based payments	0.5	(0.2)
Prior year tax adjustments	(8.8)	28.1
Tax charge for the year	1.3	25.2

Included within the current tax, a provision is recognised for those matters for which the tax determination is uncertain but it is considered probable that there will be a future outflow of funds to a tax authority. The provisions are measured at the best estimate of the amount expected to become payable.

The Group companies' tax filings include transactions which are subject to transfer pricing legislation and the taxation authorities may challenge the tax treatment of those transactions. The Directors are proactively engaged in discussions with the tax authorities regarding these tax positions. The Group determines, based on tax and transfer pricing advice provided by external specialist tax advisors, that: it is probable that the tax authorities will assess additional taxes 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

	2021 \$m	2020 \$m
Net deferred tax assets		
Trading losses in overseas entities	29.1	31.8
Deferred tax assets	97.9	140.6
Deferred tax liabilities	(59.7)	(101.7)
Total deferred tax asset	67.3	70.7
Net deferred tax liabilities		
Deferred tax assets	(0.1)	(2.0)
Deferred tax liabilities	0.2	4.7
Total net deferred tax liability	0.1	2.7

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

	2020 \$m	Income statement (charge) /credit \$m	Recognised in other comprehensive income/equity \$m	Foreign exchange \$m	2021 \$m
At 31 December					
Tangible assets	(1.1)	1.1	–	–	–
Trade and other payables	1.7	–	–	–	1.7
Intangible assets – Syndicate capacity	1.5	0.1	–	–	1.6
Retirement benefit obligations	16.5	(0.1)	(3.4)	(0.3)	12.7
Open years of account	80.2	(22.1)	–	(1.2)	56.9
Unearned premium	9.7	1.5	–	–	11.2
Loss reserve discounting	6.9	1.4	–	–	8.3
Insurance contracts – technical reserves	–	5.2	–	(0.2)	5.0
Other items	(4.5)	4.3	–	0.7	0.5
Total deferred tax assets	110.9	(8.6)	(3.4)	(1.0)	97.9
Tangible assets	–	(0.5)	–	0.1	(0.4)
Financial assets	(0.9)	(0.3)	–	–	(1.2)
Insurance contracts – equalisation provision	(2.2)	2.2	–	–	–
Reinsurance premiums	(47.7)	11.7	–	0.7	(35.3)
Deferred acquisition costs	(19.3)	(3.1)	–	–	(22.4)
Other items	(1.9)	1.4	–	0.1	(0.4)
Total deferred tax liabilities	(72.0)	11.4	–	0.9	(59.7)
Net total deferred tax assets/(liabilities)	38.9	2.8	(3.4)	(0.1)	38.2
Trading losses in overseas entities	31.8	(2.3)	–	(0.4)	29.1
Net total deferred tax assets/(liabilities)	38.9	2.8	(3.4)	(0.1)	38.2
Net deferred tax position asset/(liability)	70.7	0.5	(3.4)	(0.5)	67.3
Intangible assets	(2.0)	2.0	–	–	–
Technical reserves	(0.8)	0.6	–	–	(0.2)
Other	0.1	–	–	–	0.1
Net total deferred tax position (liabilities)/assets	(2.7)	2.6	–	–	(0.1)
Net Group deferred tax asset/(liability)	68.0	3.1	(3.4)	(0.5)	67.2

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 \$2.1 million (2020: income of \$3.5 million), comprising \$3.4 million deferred tax expense and \$1.3 million current tax income (2020: \$2.1 million deferred tax income and \$1.4 million current tax income).

Deferred tax assets of \$29.1 million (2020: \$31.8 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 (2020: \$20.6 million) of the tax losses to which these assets relate will expire within ten years; a further \$1.4 million (2020: \$11.2 million) will expire after ten years or will be available indefinitely. The Group has not provided for deferred tax assets totalling \$52.9 million (2020: \$44.0 million) in relation to losses in overseas companies of \$266.3 million (2020: \$224.7 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 \$67.2 million (2020: \$68.0 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 \$8.2 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:

	2021 \$m	2020 \$m
Present value of scheme obligations	404.1	417.9
Fair value of scheme assets	(369.0)	(344.4)
Net amount recognised as a defined benefit obligation	35.1	73.5

As the present value of scheme obligations exceeds the fair value of the scheme assets, the scheme reports a deficit.

The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit actuarial cost method. A formal full actuarial valuation is performed on a triennial basis, most recently at 31 December 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	2021 \$m	2020 \$m
Investment assets		
Pooled investment vehicles	145.3	222.7
Equities	36.3	75.0
Bonds	182.2	12.1
Derivatives	0.2	0.2
Cash	5.0	34.4
	369.0	344.4

The amounts recognised in total comprehensive income are as follows:

	Note	2021 \$m	2020 \$m
Past service cost		–	–
Interest cost on defined benefit obligation		5.6	7.6
Interest income on plan assets		(4.6)	(6.5)
Net interest cost		1.0	1.1
Administrative expenses and taxes		–	–
Total expense recognised in operational expenses in the income statement	9	1.0	1.1
Remeasurements			
Effect of changes in actuarial assumptions		(6.5)	52.1
Return on plan assets (excluding interest income)		(31.4)	(6.5)
Remeasurement of third-party Names' share of defined benefit obligation		6.3	(7.6)
Total remeasurement included in other comprehensive income		(31.6)	38.0
Total defined benefit (credit)/charge recognised in comprehensive income		(30.6)	39.1

In October 2018, the High Court in the UK issued a ruling to address inequalities in the calculation of guaranteed minimum pensions (GMPs) for members of pension schemes. This ruling requires pension funds to increase the benefits of some members of the pension scheme.

The Group has completed an estimate of the impact of the ruling on the scheme using one of the methods identified by the High Court (C2) for equalising GMPs and has recognised a charge of £nil (\$nil) during the year (2020: £15,000 (\$20,000)).

The movement in liability recognised in the Group's balance sheet is as follows:

	2021 \$m	2020 \$m
Group defined benefit liability at beginning of year	73.5	55.1
Third-party Names' share of liability	(18.8)	(10.5)
Net defined benefit liability at beginning of year	54.7	44.6
Defined benefit cost included in net income	1.0	1.1
Contribution by employer	–	(30.4)
Credit from third-party Names	(0.2)	(0.2)
Foreign exchange movements	(1.1)	1.6
Total remeasurement included in other comprehensive income	(31.6)	38.0
Net defined benefit liability at end of year	22.8	54.7
Third-party Names' share of liability	12.3	18.8
Group defined benefit liability at end of year	35.1	73.5

27 Employee retirement benefit obligations continued

A reconciliation of the fair value of scheme assets is as follows:

	2021 \$m	2020 \$m
Opening fair value of scheme assets	344.4	311.6
Interest income	4.6	6.5
Cash flows		
Contribution by the employer	–	30.4
Benefit payments	(8.8)	(21.4)
Remeasurements		
Return on plan assets (excluding interest income)	31.4	6.5
Foreign exchange movements	(2.6)	10.8
Closing fair value of scheme assets	369.0	344.4

A reconciliation of the present value of obligations of the scheme is as follows:

	2021 \$m	2020 \$m
Opening present value of scheme obligations	417.9	366.7
Past service cost	–	–
Interest expense	5.6	7.6
Cash flows		
Benefit payments	(8.8)	(21.4)
Remeasurements		
Changes in actuarial assumptions	(6.5)	52.1
Foreign exchange movements	(4.1)	12.9
Closing present value of scheme obligations	404.1	417.9

Assumptions regarding future mortality experience are set based on the S3PA (2020: S2PA) light tables. Reductions in future mortality rates are allowed for by using the CMI 2019 (2020: CMI 2107) 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:

	2021	2020
Male	28.9	28.0
Female	30.7	29.1

The average life expectancy in years of a pensioner retiring at 60, 15 years after the balance sheet date, is as follows:

	2021	2020
Male	29.3	29.1
Female	30.8	30.2

The weighted average duration of the defined benefit obligation at 31 December 2021 was 19.9 years (2020: 20.1 years).

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27 Employee retirement benefit obligations continued

Other principal actuarial assumptions are as follows:

	2021 %	2020 %
Discount rate	1.80	1.40
Inflation assumption (RPI)	3.30	2.90
Inflation assumption (CPI)	2.70	2.50
Pension increases	3.10	2.75

The scheme operates under UK Trust law and the Trust is a separate legal entity from the Group. The scheme is governed by a board of trustees, comprised of member-nominated and employer-appointed trustees. The trustees are required by law to act in the best interests of scheme members and are responsible for setting certain policies together with the principal employer. The scheme is funded by the Group when required. Funding of the scheme is based on a separate actuarial valuation for funding purposes for which the assumptions may differ from the assumptions above. Funding requirements are formally set out in the statement of funding principles, schedule of contributions and recovery plan agreed between the trustees and the Group.

The triennial valuation 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 will be six payments of £10.0 million (\$13.5 million), commencing in January 2022 and annually thereafter. The funding plan will be reviewed again following the next triennial funding valuation which will have an effective date of 31 December 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 £12.2 million (\$16.5 million) at 31 December 2021 (2020: £14.1 million (\$19.3 million)), and would increase the recorded net deficit on the balance sheet by the same amounts.

The most sensitive and judgemental financial assumptions are the discount rate and inflation. These are considered further below. CPI revaluation in deferment is used for contracted-out members. Contracted-in members are linked to RPI as well as for all pension in payment increases.

The Group has estimated the sensitivity of the net obligation recognised in the consolidated balance sheet to isolated changes in these assumptions at 31 December 2021 as follows:

	Present value of unfunded obligations before change in assumption \$m	Present value of unfunded obligations after change \$m	(Increase) /decrease in obligation recognised on balance sheet \$m
Effect of a change in discount rate			
Use of discount rate of 2.05%	35.1	15.8	19.3
Use of discount rate of 1.55%	35.1	55.8	(20.7)
Effect of a change in inflation			
Use of RPI inflation assumption of 3.55%	35.1	42.7	(7.6)
Use of RPI inflation assumption of 3.05%	35.1	30.1	5.0

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	2021	2020
Profit/(loss) for the year attributable to the owners of the Company (\$m)	189.5	(293.7)
Weighted average number of ordinary shares (thousands)	342,551	320,562
Basic earnings per share (cents per share)	55.3¢	(91.6)¢
Basic earnings per share (pence per share)	40.2p	(71.5)p

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.

	2021	2020
Profit/(loss) for the year attributable to the owners of the Company (\$m)	189.5	(293.7)
Weighted average number of ordinary shares in issue (thousands)	342,551	320,562
Adjustments for share options (thousands)	3,740	3,498
Weighted average number of ordinary shares for diluted earnings/(loss) per share (thousands)	346,291	324,060
Diluted earnings per share (cents per share)	54.7¢	(90.6)¢
Diluted earnings per share (pence per share)	39.8p	(70.7)p

Diluted earnings per share has been calculated after taking account of 3,611,707 (2020: 3,431,623) Performance Share Plan awards and 128,080 (2020: 66,010) options under SAYE schemes.

29 Dividends paid to owners of the Company

	2021 \$m	2020 \$m
Interim dividend for the year ended:		
31 December 2021 of 11.5¢ (net) per share	39.4	–
	39.4	–

There was no interim or final dividend declared for the year ended 31 December 2020.

The interim 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 Board has recommended a final dividend of 23.0¢ per share to be paid, subject to shareholder approval, on 13 June 2022 to shareholders registered on 6 May 2022, taking the ordinary dividend per share for the year to 34.5¢ (2020: nil). The dividends will be paid in Sterling unless shareholders elect to be paid in US Dollars. The foreign exchange rates at which future dividends declared in US Dollars will be calculated is based on the average exchange rate in the five business days prior to the Scrip Dividend price being determined. On this occasion, the period will be between 23 May 2022 and 27 May 2022 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 2021, HDCM held \$245.3 million of investments (2020: \$316.1 million), \$1.8 million of cash (2020: \$8.8 million) and a \$241.0 million LOC (2020: \$241.0 million) in favour of Lloyd's of London under this arrangement. At 31 December 2021, Hiscox Bermuda held \$695.5 million of investments (2020: \$884.6 million), \$26.4 million of cash (2020: \$25.9 million) and a \$25.0 million LOC (2020: \$25.0 million) in favour of Lloyd's of London under this arrangement.
- (b) In 2020, HDCM entered into a \$65 million FAL agreement under which the lending bank provides assets on HDCM's behalf under a security and trust deed charged to Lloyd's of London as part of the Company's Fund's at Lloyd's provision. At 31 December 2021 the full \$65 million was utilised.
- (c) Hiscox plc continued with its LOC and revolving credit facility with Lloyds Banking Group, as agent for a syndicate of banks, which may be drawn in cash up to £450 million under a revolving credit facility (2020: £450 million) or LOC up to \$266 million (2020: \$266 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 2021, \$266.0 million (2020: \$266.0 million) was utilised by way of LOC to support the Funds at Lloyd's requirement and \$nil cash drawings were outstanding (2020: \$193.4 million).
- (d) Hiscox Insurance Company Limited has arranged a LOC of £50,000 (2020: £50,000) with NatWest Bank plc to support its consortium activities with Lloyd's; the arrangement is collateralised with cash of £50,000 (2020: £50,000).
- (e) The Council of Lloyd's has the discretion to call a contribution of up to 3% (increasing to 5% from 2022) of capacity if required from the managed syndicates.
- (f) As Hiscox Bermuda is not an admitted insurer or reinsurer in the USA, the terms of certain US insurance and reinsurance contracts require Hiscox Bermuda to provide LOCs or other terms of collateral to clients. Hiscox Bermuda has in place a LOC reimbursement and pledge agreement with Citibank for the provision of a LOC facility in favour of USA ceding companies and other jurisdictions, and also LOC facility agreements with National Australia Bank and Commerzbank AG. The agreements combined are a three-year secured facility that allowed Hiscox Bermuda to request the issuance of up to \$470.0 million in LOCs (2020: \$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 \$183.1 million were issued with an effective date of 31 December 2021 (2020: \$140.1 million on a \$470 million facility) and these were collateralised by US government and corporate securities with a fair value of \$201.7 million (2020: \$169.5 million). In addition, Hiscox Bermuda maintained assets in trust accounts to collateralise obligations under various reinsurance agreements. At 31 December 2021, total cash and marketable securities with a carrying value of approximately \$23.6 million (2020: \$18.4 million) were held in external trusts. Cash and marketable securities with an approximate market value of \$554.3 million (2020: \$598.7 million) were held in trust in respect of internal quota share arrangements.

- (g) Hiscox SA has arranged bank guarantees with respect to their various office deposits for a total of €266,624 (2020: €266,336). These guarantees are held with ING Bank (Belgium) €23,460 (2020: €23,000), ABN Amro (Holland) €44,749 (2020: €45,000), HypoVereinsbank – UniCredit (Germany) €156,435 (2020: €156,336) and ING Bank (Luxembourg) €41,980 (2020: €42,000). 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 \$12.9 million (2020: \$9.9 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:

	2021 \$m	2020 \$m
No later than one year	2.0	0.4
Later than one year and no later than five years	4.8	–
	6.8	0.4

32 Principal subsidiary companies of Hiscox Ltd at 31 December 2021

Company	Nature of business	Country
Hiscox plc*	Holding company	Great Britain
Hiscox Insurance Company Limited	General insurance	Great Britain
Hiscox Insurance Company (Guernsey) Limited*	General insurance	Guernsey
Hiscox Holdings Inc.	Holding company	USA (Delaware)
ALTOHA, Inc.	Insurance holding company	USA (Delaware)
Hiscox Insurance Company Inc.	General insurance	USA (Illinois)
Hiscox Inc.	Insurance intermediary	USA (Delaware)
Hiscox Insurance Company (Bermuda) Limited*	General insurance and reinsurance	Bermuda
Hiscox Dedicated Corporate Member Limited	Lloyd's corporate Name	Great Britain
Hiscox Holdings Limited**	Insurance holding company	Great Britain
Hiscox Syndicates Limited	Lloyd's managing agent	Great Britain
Hiscox ASM Ltd.	Insurance intermediary	Great Britain
Hiscox Underwriting Group Services Limited	Service company	Great Britain
Hiscox Underwriting Ltd	Underwriting agent	Great Britain
Hiscox Société Anonyme*	General insurance	Luxembourg
Hiscox Assure SAS	Insurance intermediary	France
Direct Asia Insurance (Holdings) Pte Ltd	Holding company	Singapore
Direct Asia Insurance (Singapore) Pte Limited	General insurance	Singapore

*Held directly.

**Hiscox Holdings Limited held nil shares in Hiscox Ltd at 31 December 2021 (2020: 38,030).

All principal subsidiaries are wholly owned. The proportion of voting rights of subsidiaries held is the same as the proportion of equity shares held.

33 Related-party transactions

Details of the remuneration of the Group's key personnel, presented in Sterling, are shown in the annual report on remuneration 2021 on pages 100 to 107. 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 (2020: 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 2021 \$m	31 December 2020 \$m	31 December 2021 \$m	31 December 2020 \$m
Hiscox Syndicates Limited	5.8	5.1	2.3	1.2
Hiscox Group insurance carriers	8.7	15.6	(74.8)	(114.8)
Hiscox Group insurance intermediaries	4.2	(1.5)	(9.2)	(14.4)
Other Hiscox Group companies	35.4	32.8	11.7	22.6
	54.1	52.0	(70.0)	(105.4)

(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.

	2021 \$m	2020 \$m
Gross premium income achieved through associates	17.5	12.1
Commission expense charged by associates	4.3	3.0

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

In February 2022, a military conflict arose in Ukraine. The Group has some limited direct insurance exposure through certain lines including terrorism, political violence, war and marine. Management are actively monitoring the situation and assisting Hiscox policyholders. The Group has negligible exposure to investments in Ukrainian and Russian assets.

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 shared-based payment structures. The ROE is shown in note 6, along with an explanation of the calculation.

Net asset value (NAV) per share and net tangible asset value per share

The Group uses NAV per share as one of its key performance metrics, including using the movement of NAV per share in the calculation of the options vesting of awards granted under Performance Share Plans (PSP) from 2018 onwards. This is a widely used key measure for management and also for users of the financial statements to provide comparability across peers in the market. Net tangible asset value comprises total equity excluding intangible assets. NAV per share and net tangible asset value per share are shown in note 5, along with an explanation of the calculation.

Prior-year developments

Prior-year developments are a measure of favourable or adverse development 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

	2021 \$m	2020 \$m	2019 \$m	2018 \$m	2017 \$m
Results					
Gross premiums written	4,269.2	4,033.1	4,030.7	3,778.3	3,286.0
Net premiums written	2,955.0	2,750.4	2,678.8	2,581.5	2,403.0
Net premiums earned	2,919.9	2,752.2	2,635.6	2,573.6	2,416.2
Profit/(loss) before tax	190.8	(268.5)	53.1	135.6	37.8
Profit/(loss) for the year after tax	189.5	(293.7)	48.9	117.9	22.7
Assets employed					
Intangible assets	313.1	298.9	278.0	204.6	186.0
Financial assets carried at fair value	6,041.3	6,116.8	5,539.0	5,029.7	5,139.6
Cash and cash equivalents	1,300.7	1,577.2	1,115.9	1,288.8	867.8
Insurance liabilities and reinsurance assets	(4,960.4)	(5,468.8)	(4,707.6)	(4,244.9)	(4,174.4)
Other net assets	(155.4)	(170.2)	(35.6)	(19.2)	298.2
Net assets	2,539.3	2,353.9	2,189.7	2,259.0	2,317.2
Net asset value per share (¢)	739.8	689.0	768.2	798.6	817.1
Key statistics					
Basic earnings/(loss) per share (¢)	55.3	(91.6)	17.2	41.6	8.1
Basic earnings/(loss) per share (p)	40.2	(71.5)	13.5	31.2	9.3
Diluted earnings/(loss) per share (¢)	54.7	(90.6)	16.9	40.8	11.6
Diluted earnings/(loss) per share (p)	39.8	(70.7)	13.3	30.6	9.0
Combined ratio (%)	93.2	114.5	106.8	94.4	98.8
Return on equity (%)	8.1	(11.8)	2.2	5.3	1.0
Dividends per share (¢)	34.5	–	13.8	41.9	39.8
Dividends per share (p)	25.3	–	11.1	32.8	29.0
Share price – high [†] (p)	1,004.0	1,431.0	1,777.0	1,711.0	1,470.0
Share price – low [†] (p)	770.0	666.4	1,213.0	1,332.0	997.5

[†]Closing mid-market prices.

The five-year summary is unaudited.

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