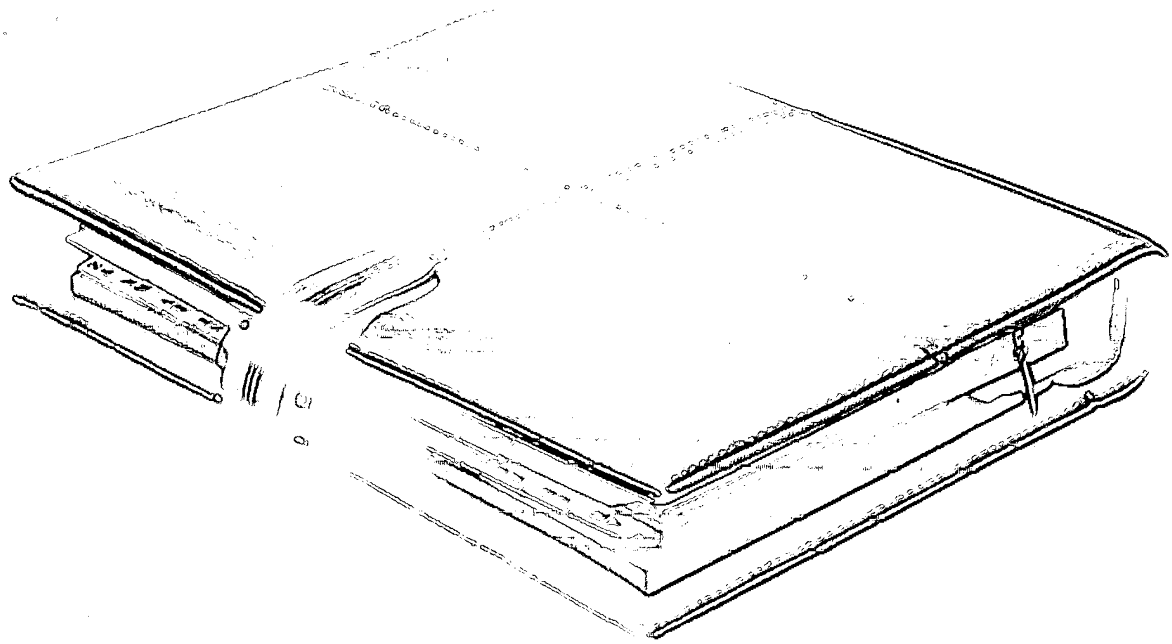
HISCOX

Registration number: 00070234

Hiscox Insurance Company Limited
Annual Report and Financial Statements
for the Year Ended 31 December 2023



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HISCOX INSURANCE COMPANY LIMITED

Contents

HISCOX INSURANCE COMPANY LIMITED

Company Information

The Directors of the Company who were in office during the year and up to the date of signing the financial statements were:

Chair	Colin Keogh (non-executive director)
	Mark Cliff (non-executive director)
	Timothy Harris (non-executive director) *[appointed 1 January 2024]*
	Susan Jane Hayes (non-executive director)
	Helen Heslop (non-executive director) *[resigned 31 December 2023]*
	Jonathan Dye
	Benjamin Horton
	Joanne Musselle
	Thomas Shewry
Registered office	22 Bishopsgate London EC2N 4BQ
	Registration number: 00070234
Independent Auditors	PricewaterhouseCoopers LLP 7 More London Riverside London SE1 2RT

Strategic Report for the Year Ended 31 December 2023

The Directors present their strategic report for the year ended 31 December 2023.

Principal activities

The principal activity of Hiscox Insurance Company Limited (HIC or the Company) is the transaction of general insurance. The Company provides personal insurance for high net worth individuals and professional indemnity and other liability insurance such as employment liability and property risks to professionals and small businesses.

The Company underwrites insurance risk sold through underwriting agents in seven UK locations: Birmingham, Colchester, Glasgow, London, Maidenhead, Manchester and York.

HIC is a private company limited by shares and registered in England and Wales. The Company is a wholly owned subsidiary of Hiscox Insurance Holdings Limited and the Company's operations form the vast majority of the UK division of Hiscox Ltd, the ultimate parent, and its group of companies (Hiscox Group or the Group).

Business review

The Directors review certain key performance indicators (KPIs) to assess the performance of the Company and make decisions on allocating resources. The KPIs used by the Directors are as follows:

	2023	2022 (restated)*
Insurance revenue (£000)	**563,163**	554,990
Insurance service expenses (£000)	**(370,497)**	(392,564)
Net expenses from reinsurance contracts held (£000)	**(145,871)**	(129,576)
Insurance service result (£000)[1]	**46,795**	32,850
Investment result (£000)	**24,618**	(13,590)
Profit before tax (£000)[2]	**46,595**	11,392
Net claims ratio	**19.6%**	23.2%
Net acquisition costs ratio	**39.3%**	36.7%
Net admin. expenses ratio	**28.6%**	31.4%
Net combined ratio[3]	**87.5%**	91.3%
Undiscounted net combined ratio[4]	**89.7%**	92.6%
Return on capital employed pre-tax	**23.1%**	5.7%

** Comparatives have been restated for the adoption of IFRS 17 and IFRS 9.*

[1] Insurance service result includes incurred claims expenses, acquisition expenses and other attributable expenses.

[2] Profit before tax from continuing operations.

[3] The net combined ratio is calculated as the sum of the net claims, net acquisition costs and net admin. expense ratios, where the net claims ratio is defined as: the sum of incurred claims plus losses and reversal of losses on onerous contracts less amounts recoverable for incurred claims expressed as a percentage of the sum of insurance revenue less allocation of reinsurance premium.

[4] The net combined ratio calculated on an undiscounted basis.

Strategic Report for the Year Ended 31 December 2023 (continued)

Business review *continued*

In 2023, the Company's insurance revenue increased by 1.5% to £563,163 thousands (2022: £554,990 thousands). As at 31 December 2023, the most material lines of business were fire and other damage to property insurance (property insurance) and general liability insurance, accounting for 97.8% (2022: 97.6%) of insurance revenue.

The Company made an insurance service profit in 2023 of £46,795 thousands compared to £32,850 thousands profit in 2022 returning a net combined ratio of 87.5% (2022: 91.3% as restated).

Inflation remained a significant factor during 2023 and we are comfortable that HIC maintains appropriate levels of overall claims reserves.

HIC's investments generated a gain of £24,618 thousands in 2023, driven largely by increased yields on fixed interest securities, compared to a loss of £13,590 thousands in 2022.

Overall, the profit after tax for 2023 was £35,023 thousands compared to a £7,399 thousands profit, as restated, in 2022.

No shares have been issued for the year ended 31 December 2023 (2022: nil). The Board declared a £15,000 thousands interim dividend for the year ended 31 December 2023 (2022: £20,000). No final dividend has been declared for the year ended 31 December 2023 (2022: £nil).

HIC's credit ratings are A (Excellent) from AM Best, A+ from Fitch and A (Strong) from S&P. A downgrade or a negative change in the rating would translate to increased credit risk for policyholders.

The Hiscox Group manages its operations on a divisional basis rather than on a legal entity basis. For this reason, the Company's Directors believe that other financial or non-financial key performance indicators for the Company itself, other than those shown above, are not necessary or appropriate to an understanding of the development, performance or position of the Company. The performance and position of the UK division of Hiscox Ltd is discussed in the Group's Report and Accounts which does not form part of this Report. Copies of the Group's Report and Accounts may be obtained from the Hiscox Ltd registered office at, Chesney House, 96 Pitts Bay Road, Pembroke HM 08, Bermuda.

Principal risks and uncertainties

The Company's principal risks comprise strategic risk, insurance (underwriting and reserve) risk, market risk, liquidity risk, credit risk, operational risk, regulatory and legal and Group risks. Market risk encompasses foreign exchange risk which for clarity is disclosed separately in note 3f to the financial statements. In terms of uncertainties, and common with other insurers, the Company's result is significantly impacted by clusters of unpredictable events and circumstances such as natural and man-made catastrophes, weather events, climate change (increasing frequency and severity of natural catastrophes), latent claim developments, judicial developments and economic factors such as inflation. The Company seeks to manage the impact of such events, through enforcing strict underwriting procedures aligned with the Board's risk appetite, supplemented with a reinsurance programme placed with high quality reinsurance partners whose financial strength is actively monitored.

Principal risks and uncertainties *continued*

Strategic risk is detailed in note 3, together with insurance (underwriting and reserve) risk, market risk, liquidity risk, credit risk, operational risk, regulatory and legal, and Group risks. More generally, competitive pricing pressure is a continuing strategic risk for the Company. The Company competes against other major insurers with similar product offerings and in markets where surplus capacity can reduce the prevailing prices to levels that are uneconomic to underwrite. When such conditions exist, the Company seeks to withdraw from business that is unlikely to generate underwriting profits over the insurance cycle. Consequently, there is a risk of losing existing customer relationships to key competitors when market conditions are unfavourable. The Company seeks to manage the sensitivity of this risk by providing good levels of customer service.

The Company writes some premium income through Delegated Authority agreements whereby agents are granted authority to accept risks on the Company's behalf. All delegations of underwriting authority are tightly controlled through strict underwriting guidelines, contractual restrictions and obligations. All third parties are vetted prior to appointment and regularly monitored and audited. However, there is no absolute guarantee that an agent will always comply with the terms of the authority, which could expose the Company to unforeseen losses.

Sophisticated modelling tools are used to ensure that the aggregation and concentration of actual insurance acceptances do not exceed the level desired or anticipated by Management.

The Company establishes reserves for unpaid claims, defence costs and related expenses to cover its ultimate liability for losses. The Company's reserving procedures utilise standard actuarial methodologies and appropriate work review. Management considers the need for additional reserves above the best estimate to capture the uncertainties in the underlying business and the actuarial models, and as such reserves are set inclusive of a risk adjustment. However, there remains a possibility that the ultimate liabilities could be materially different to the amounts currently reserved.

Information on the management of financial risk by the Company is also disclosed in note 3 to the financial statements. In particular, the Company's exposure to strategic risk, underwriting risk, reserving risk, market risk, liquidity risk, credit risk, operational risk, regulatory and legal, and Group risk are separately disclosed in that note.

Future developments

The Company will continue to be a subsidiary of Hiscox Insurance Holdings Limited.

The continued emphasis being placed on sustainability principles on a global scale, both at government level and within the private sector, is likely to translate to an increase in the Company's disclosures over time, including in its climate-related reporting.

Statement by the Directors in performance of their statutory duties in accordance with s172 (1) Companies Act 2006

The Board of Directors of the Company both individually and collectively act in the way they consider in good faith would be most likely to promote the success of the Company for the benefit of the Group and its ultimate investors as a whole with appropriate regard to the wider stakeholders including those set out in s172 (1) (a-f) of the Act). In decisions taken to the year ended 31 December 2023, we would reference our approach to operating/business plans, the refresh, cascade and implementation of the wider Hiscox Group Strategy and the supporting control environment which deliver good outcomes for the Company and wider stakeholders. In achieving this, the following areas are highlighted:

a) Our Company's plan and strategy was designed to have a long-term beneficial impact on the Company and to contribute to the success in delivering the business plan of the Group. We continue to operate our business within a structured control environment and the regulated requirements necessary to maintain the operating licence. Hiscox Group's values reiterate this longer term perspective and the desire to build a business that lasts and that everyone is proud to be part of.

b) Our employees are fundamental to the delivery of our business and our staff are supplied via service agreements with a sister Hiscox Group company (Hiscox Underwriting Group Services Limited (HUGS)). The Hiscox Group aims to build teams that are as diverse as our customers and create a vibrant work environment where all employees can thrive. Hiscox Group has a Diversity, Equity and Inclusion (DEI) strategy framework and vision based on values which anchor and align to the corporate culture. These support a vision of a healthy and successful Hiscox that is powered by diverse people and fuelled by inclusion. In addition to the Hiscox Group strategy, each business unit has a set DEI action plan that further details KPIs and actions for a localised approach. We have put steps in place for workforce engagement, training and development, employee networks, regular communication updates, launch events for major projects and Partner's events. We are a Living Wage employer in the UK. Hiscox Group's values reiterate that our growth and success has been built on teamwork, having shared goals and celebrating together when things go well and supporting each other when they do not.

c) Time is taken to get to know the people we work with and work for - our customers. We are committed to delivering fair treatment of customers by delivering the good customer outcomes principles set out by the Financial Conduct Authority (FCA) and through implementation of the FCA Consumer Duty rules. Our success depends on our relationships with a network of experts beyond our business. We value our suppliers and have a Group Prompt Payment Policy.

d) Our plan and strategy takes into account the sustainability impact of the Company's operations. As a company within Hiscox Group, we operate in line with the broader Hiscox sustainability strategy, where there is a focus on our people, customers, governance, risk adaptation and impact. Like others, we are responding to a changing climate, and are helping our customers and business partners to adapt through our products and services. We also evolve as regulation changes and public interest in emerging issues grows. Sustainability issues touch many different parts of our business - such as HR, risk, finance, underwriting, investments - and the sustainability strategy we have developed helps us stay focussed and make an impact in the areas that matter most to us and to our various stakeholders. A key area of focus for the Board has been climate change throughout the year with HIC specific discussions on impact, plans and continued progress and review of the HIC climate action plans. The Board regularly reviewed progress against the Prudential Regulation Authority (PRA) requirements to managing financial risks from climate change (Supervisory Statement (SS)3/19) and policy updates on greenhouse gas targets for Group, and our plans to address these.

Statement by the Directors in performance of their statutory duties in accordance with s172 (1) Companies Act 2006 *continued*

Although, from a sustainability perspective, the Company has a relatively lower risk profile when compared to other risk carriers in Hiscox Group, the Board continues to select underwriting, exposure and investments that account for this risk and will continue scanning the horizon for any emerging risks. Our sustainability efforts are measured both internally and externally. Externally, we participate in a number of key ESG indices including Carbon Disclosure Project (CDP), and we report against Task Force on Climate-related Financial Disclosures (TCFD) aligned principles in our annual climate report and against TCFD in the Hiscox Ltd Report and Accounts. For assets under management by the Company, 100% of our Investment Managers are signed up to the UN Principles of Responsible Investments (UNPRI) as is the Hiscox Group, which is also signed up to the Principles for Sustainable Insurance (PSI).

e) The Board of Directors' intention is to behave responsibly and ensure that the business operates in a responsible manner within the high standards of business conduct and good governance. Our Company ensures that we meet standards expected by our Regulators, including the PRA and FCA, in order to ensure that our licence to operate is maintained. There is a clear policy in place for Whistleblowing. The Audit Committee Chair is the Whistleblowing champion for the Company and the Audit Committee and Board as a whole ensures that the processes in place are adequate. The Whistleblowing policy ensures employees feel empowered to raise concerns in confidence and without fear of unfair treatment. It allows serious concerns to be raised confidentially with senior management or, if they choose, with the Chair of the Audit Committee. Having a supportive and inclusive culture is important to the Company, and how employees feel about working at Hiscox is tracked through the annual employee engagement survey.

Approved by the Board on 27 March 2024 and signed on its behalf by:

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Thomas Shewry
Director

HISCOX INSURANCE COMPANY LIMITED

Directors' Report for the Year Ended 31 December 2023

The Directors have pleasure in submitting their Annual Report and Financial Statements for the year ended 31 December 2023.

The Company is a UK authorised insurer and is a wholly owned subsidiary of Hiscox Insurance Holdings Limited. The ultimate parent is Hiscox Ltd which is incorporated in Bermuda and is a FTSE 250 listed company on the London Stock Exchange.

The key performance indicators are shown on page 2.

Future developments are disclosed on page 4 of the Strategic Report.

Going concern

The Company has considerable financial resources and a well-balanced book of business and, after review of the key performance indicators of the Company as described above along with consideration of the key risks, the Directors have an expectation that the Company has adequate resources to continue in operational existence for the foreseeable future.

Since 1 January 2016, the Company has been operating under the Solvency II capital regime as adopted by the UK. The Company is a standard formula firm under Solvency II. The Directors have reviewed the Company's forecast solvency position under this regime and are content that this supports the continued use of the going concern basis in preparing the financial statements.

Dividends and transfers to reserves

The Board declared a £15,000 thousands interim dividend for the year ended 31 December 2023 (2022: £20,000 thousands). No final dividend has been declared for the year ended 31 December 2023 (2022: £nil). The profit for the financial year after tax of £35,023 thousands (2022: profit of £7,399 thousands, as restated) has been transferred to the Company's retained earnings.

Directors

The names of the Directors of the Company at the date of this report are listed on page 1 of these financial statements. The Directors do not have any interests in the shares of the Company. The interest of the Directors in the shares of the Company's ultimate parent Hiscox Ltd as granted by the Performance Share Plan are detailed in note 15.

Indemnity insurance

A policy of indemnity insurance cover to the benefit of the Directors of the Company has been in force during the year ended 31 December 2023 and at the date of this report.

Political and charitable contributions

The Company made no political contributions during the year (2022: £nil). Donations to charitable organisations made during the year, all of which are in the UK, amounted to £nil (2022: £nil).

Employees and pension arrangements

All employees are employed by HUGS. Its management charge to the Company includes basic salary cost and employee benefits.

Directors' Report for the Year Ended 31 December 2023 (continued)

Disclosure of information to auditors

The Directors' responsibilities statement is disclosed in section "Statement of Directors' Responsibilities in respect of the Financial Statements".

Independent auditors

It is the intention of the Directors to reappoint the auditors PricewaterhouseCoopers LLP under the deemed appointment rules of Section 487 of the Companies Act 2006.

Business relationships

We have a diverse range of stakeholders whose engagement is critical to our continued success. We engage with, consider and respond to our stakeholders' needs at various levels and as part of the Hiscox Group. Our success depends on our relationships with a network of experts beyond our business. We have a responsibility to engage with our regulators and do so openly and proactively.

Our business relationships are aligned to the core themes outlined in the stakeholder engagement disclosures section of the Hiscox Ltd Report and Accounts. This can be found at: www.hiscoxgroup.com/investors/report-and-accounts-2023.

Task Force on Climate-Related Financial Disclosures (TCFD)

Reporting against TCFD is a requirement of the FCA for all premium-listed firms on a 'comply or explain' basis. Hiscox Group has been reporting against the TCFD-aligned ClimateWise Principles through our annual climate report since 2019 and are public supporters of TCFD. The Group's climate report sets out the approach to climate-related matters in every part of our business: governance, risk management, operations, underwriting, investments, marketing and so on. It is one of our richest sources of climate-related information and is available at:
www.hiscoxgroup.com/2023climatereport.

In addition, the Hiscox Ltd Report and Accounts 2023 includes Hiscox Group's disclosures against TCFD, in accordance with the FCA requirements. This can be found at:
https://www.hiscoxgroup.com/tcfd.

Directors' Report for the Year Ended 31 December 2023 (continued)

Climate change

The Board is actively involved in the oversight of matters arising from climate change - risks, opportunities, strategy, priorities and performance. This oversight is managed through an established and embedded governance structure.

The PRA focuses on the financial risks associated with the transition to a low carbon economy and their expectations are set out in SS3/19 which has been addressed by the Company through a "Strategic (Climate) Action Plan". This includes 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).

Each year, the Board reviews and agrees actions to help further embed ongoing activities in this area which are expected to continue in 2024 and in future years.

Streamlined Energy and Carbon Reporting (SECR)

The cornerstone of our climate-related metrics and targets is our greenhouse gas (GHG) emission reduction targets. In 2022, we published Group targets which have been created using Science Based Targets initiative (SBTi) methodologies and which 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. More information on our GHG emission reduction targets can be found in the Hiscox Ltd Report and Accounts 2023.

All of the employees of the Company and its UK affiliates are employed by HUGS, which also provides and manages the premises which the Company and its UK affiliates occupy. For the year ended 31 December 2023, given the complexity of allocating energy consumption and emissions between the Hiscox Group's various UK subsidiaries, it is impracticable for HIC to disclose the following information:

- UK (including UK offshore area) energy use in kWh (as a minimum gas, electricity and transport);
- GHG emissions associated with energy use;
- Energy use and GHG emissions figures from previous year;
- At least one emissions intensity ratio;
- Narrative on energy efficiency action taken in the year; and
- Details of methodology used.

Consequently, the amounts shown below are the totals incurred throughout the Hiscox Group.

Directors' Report for the Year Ended 31 December 2023 (continued)

Hiscox Group Energy and Carbon Performance Results

Streamlined Energy and Carbon Reporting (SECR) GHG emissions

	Current reporting year (2023)			Previous reporting year (2022)			
	UK	Global (excluding UK)	Total	UK	Global (excluding UK)	Total	% Change in emissions (total)
Fuel consumption – stationary (Scope 1) (tCO_2e)	269.5	45.5	315.0	397.2	48.0	445.2	-29.3%
Fuel consumption – mobile (Scope 1) (tCO_2e)[*]	–	44.4	44.4	–	250.2	250.2	[illegible]
Fugitive emissions (Scope 1) (tCO_2e)	32.3	17.3	49.6	58.5	32.7	91.2	-45.6%
Scope 1 total (tCO_2e)	301.7	107.2	408.9	455.7	330.9	786.6	-48.0%
Electricity (Scope 2) – location-based[*†] (tCO_2e)	514.4	926.6	1,441.0	564.4	748.9	1,313.3	9.7%
Electricity (Scope 2) – market-based[*‡] (tCO_2e)	38.0	955.2	993.2	37.1	836.5	873.6	13.7%
District heating and cooling (Scope 2) (tCO_2e)	–	49.9	49.9	–	52.5	52.5	-5.0%
Scope 2 market-based total (tCO_2e)	38.0	1,005.1	1,043.1	37.1	889.1	926.1	12.6%
Total Scope 1 and Scope 2 (location-based)	816.1	1,083.7	1,899.8	1,020.2	1,132.3	2,152.5	-11.7%
Total Scope 1 and Scope 2 (market-based)	339.7	1,112.3	1,452.0	492.8	1,220.0	1,712.8	-15.2%
Scope 1 and 2 intensity ratio – location-based (tCO_2e/FTE)	0.5	0.6	0.5	0.7	0.6	0.6	-16.7%
Scope 1 and 2 intensity ratio – market-based (tCO_2e/FTE)	0.2	0.6	0.4	0.3	0.7	0.5	-20.0%
Total energy consumption (kWh)[§]	3,956,953.3	3,033,851.5	6,990,804.8	5,094,929.5	4,011,492.1	9,106,421.6	-23.2%

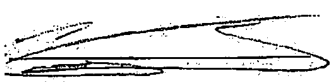
[*] Includes electricity consumption from both stationary and mobile assets.
[†] A location-based method reflects the average emissions intensity of grids on which energy consumption occurs.
[‡] A market-based method reflects emissions from the electricity supply that the company has purchased.
[§] Total energy consumption refers to all energy consumption under Hiscox's operation control. This includes Scope 1 and Scope 2: natural gas, fuel oil, refrigerants, stationary electricity, mobile electricity and district heating/cooling.

For the purposes of baselining and ongoing comparison, we are required to express emissions using a carbon intensity metric. The intensity metric chosen is FTE.

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 the Group's full GHG inventory is also available in the Hiscox Ltd Report and Accounts.

Approved by the Board on 27 March 2024 and signed on its behalf by:



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Thomas Shewry
Director

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and Financial Statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with UK-adopted international accounting standards.

Under company law, directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable UK-adopted international accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

Directors' confirmations

In the case of each director in office at the date the directors' report is approved:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Independent auditors' report to the members of Hiscox Insurance Company Limited

Report on the audit of the financial statements

Opinion

In our opinion, Hiscox Insurance Company Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2023 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements, which comprise: the Balance Sheet as at 31 December 2023; the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended; and the notes to the financial statements, comprising material accounting policy information and other explanatory information..

Our opinion is consistent with our reporting to the audit committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the 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 remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

Other than those disclosed in the notes to the financial statements, we have provided no non-audit services to the company in the period under audit.

Our audit approach

Overview

Audit scope

- We performed a full scope audit of the financial statements of the company in accordance with our risk assessment and materiality

Key audit matters

- Valuation of insurance contract liabilities and reinsurance contract assets - assumptions and judgements
- Implementation of IFRS 17 - Transition and restatement of comparatives

Materiality

- Overall materiality: £5,631,000 (2022: £5,567,000) based on 1% of Insurance revenue.
- Performance materiality: £4,224,000 (2022: £4,175,000).

Independent auditors' report to the members of Hiscox Insurance Company Limited (continued)

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the 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 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.

This year there is one new key audit matter:

- Implementation of IFRS 17 - Transition and restatement of comparatives

We have combined the prior year key audit matter entitled 'Valuation of gross claims liabilities' and 'Valuation of reinsurance claims recoverable' into one single key audit matter entitled 'Valuation of insurance contract liabilities and reinsurance contract assets - assumptions and judgements' to reflect the change to IFRS 17.

'Disclosure of the expected impact of IFRS 17', which was a key audit matter last year, is no longer included because this was a risk relevant to a specific disclosure made in the prior year financial statements.

Key audit matter	How our audit addressed the key audit matter
1. Valuation of insurance contract liabilities and reinsurance contract assets - assumptions and judgements *Refer to note 2.1, 2.5, 2.12 and 16 to the financial statements for disclosures of related accounting policies, judgements, and balances* As at 31 December 2023 insurance contract liabilities comprised £55.7 million of liabilities for remaining coverage (LRC), and £472.8 million of liabilities for incurred claims (LIC). Reinsurance contract assets comprised £12.5 million of assets for remaining coverage (ARC), and £324.8 million of assets for incurred claims (AIC). Insurance contract liabilities and reinsurance contract assets are inherently uncertain and contain material estimates. LIC and AIC - The most subjective element continues to be the incurred but not yet reported claims cash flows, which form part of the LIC, and the associated reinsurers' share of incurred but not yet reported claim cash flows, which form part of AIC. The LIC and AIC also include the risk adjustment to reflect the management's view of the compensation that it requires for bearing uncertainty about the amount and timing of cash flows from non-financial risks.	In performing our work over the valuation of insurance contract liabilities and reinsurance contract assets PwC actuarial specialists were used, where appropriate. To address this key audit matter, we: • Understood and evaluated the process and the design and implementation of controls in place to determine the insurance contract liabilities and reinsurance contract assets; • Tested the underlying data to source documentation; • Assessed the appropriateness of the policy applied to determine the risk adjustment and testing of the derivation of the adjustment; • Evaluated and challenged the robustness of the key judgements adopted in relation to LIC and AIC, including the risk adjustment; • Applied our industry knowledge and experience and compared the methodology, models and assumptions used against recognised actuarial practices;

Independent auditors' report to the members of Hiscox Insurance Company Limited (continued)

Management bases these estimates on the estimated ultimate cost of all claims, together with estimates of the related claims handling costs, these estimates can be materially impacted by numerous factors including: • The underlying volatility attached to estimates for certain classes of business, where small changes in assumptions can lead to large changes in the levels of the estimate held; • The risk of inappropriate assumptions used in determining current year estimates, especially for 'long-tailed' classes of business, there is necessarily greater use of management judgement; • The risk that key assumptions in respect of natural catastrophes and other large claim losses are inappropriate. There is significant judgement involved in those loss estimates, particularly as they are often based on limited data; • The valuation of AIC is uncertain due to the significant degree of judgement applied in valuing the underlying insurance contracts that have been reinsured, the complexity of the application and coverage of the reinsurance programme; and • The determination of discount rates (including choice of illiquidity premium) and payment patterns used to derive the cash flow for incurred claims. • The determination of discount rates (including choice of illiquidity premium) and payment patterns used to derive the cash flow for incurred claims. Liabilities and assets for remaining coverage - We consider the most significant judgements to be: • the determination of the Premium Allocation Approach ('PAA') measurement model for groups of contracts that are not automatically eligible, including the selection of "reasonably expects" assumptions.	• For the undiscounted best estimate liabilities, developed independent point estimates for classes of business considered to be higher risk, particularly focusing on the largest and most uncertain classes, as at 31 August 2023 and performed a roll-forward test to 31 December 2023; • Evaluated the methodology and assumptions or performed a diagnostic check to identify and investigate any anomalies over the remaining classes of business; • Tested the accuracy of application of reinsurance contract terms; • Understood updates made to the actuarial assumptions impacting the forecast future claims cash flows, and evaluated any changes for reasonableness. This includes assumptions on discount rates and payment patterns; and • Assessed the appropriateness of the judgements and supporting estimates used to determine use of the PAA and GMM measurement models, including testing the completeness and accuracy of the supporting data, evaluating the assumptions used and scenarios applied and testing the accuracy of the models used. The results of our procedures indicated that the valuation of insurance contract liabilities and reinsurance contract assets were supported by the evidence obtained.

Independent auditors' report to the members of Hiscox Insurance Company Limited (continued)

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2. Implementation of IFRS 17 - Transition and restatement of comparatives

Refer to note 2.1, 2.5, 2.12 and 16 to the financial statements for disclosures of related accounting policies and balances.

On 1 January 2023, the company transitioned to IFRS 17 'Insurance Contracts' which replaced IFRS 4. Due to the significance of the changes introduced by the standard, which requires new and complex accounting models and the application of the new accounting policies, there is increased inherent risk in respect of the functionality and application of these models in this first year of adoption. This is of particular focus for the company as the calculation engine used (Tyche) to determine the liabilities, assets and related items of income and expense under IFRS 17 has been internally developed.

The 2022 opening balance sheet and the 2022 comparatives have been restated in order to comply with the requirements of IFRS 17. The comparatives have been calculated by management by adjusting the reported position on an IFRS 4 basis using internal models developed for transition. These adjustments require a number of significant judgements and estimates including:

- The determination of the measurement model to apply under the standard, in particular, management's use of the PAA measurement model for groups of contracts that are not automatically eligible;
- The methodology and assumptions in respect of determining the risk adjustment;
- The methodology used by management to determine discount rate, which was deemed to be significant to the overall impact of transition; and
- The implementation of new models to produce the IFRS 17 results, which include the Tyche and internally developed models for transition.

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In performing our audit work over the transition to IFRS 17, and restatement of the comparative financial statements (including the 2022 opening balance sheet), the following procedures were performed:

- Evaluated the design and implementation of the relevant controls in place;
- Assessed the significant judgments used by management to determine the accounting policies along with the compliance of those policies with IFRS 17;
- Tested the application of management's documented accounting policies;
- Assessed the appropriateness of the judgements and supporting estimates used to determine use of the PAA and GMM measurement models, including testing the completeness and accuracy of supporting data, evaluating the assumptions used and scenarios applied, and testing the accuracy of models used;
- Tested management's calculation engine and the transition models using our independent model;
- Evaluated the appropriateness of the methodology used to determine discount rates and independently recalculated the impact of discounting;
- Assessed the appropriateness of the policy applied to determine the risk adjustment and tested the derivation of the adjustment;
- Tested the mapping of outputs from the calculation engine to the general ledger and financial statement disclosures; and
- Tested the mathematical accuracy and completeness of the supporting calculations and adjustments used to determine the 2022 comparatives and opening position at January 1 2022.

As a result of the procedures performed, we have no matters to report related to the Implementation of IFRS 17 - Transition and restatement of comparatives.

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How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the company, the accounting processes and controls, and the industry in which it operates.

Independent auditors' report to the members of Hiscox Insurance Company Limited (continued)

The impact of climate risk on our audit

As part of our audit we made enquiries of management to understand the extent of the potential impact of climate risk on the company's financial statements, and we remained alert when performing our audit procedures for any indicators of the impact of climate risk. Our procedures did not identify any material impact as a result of climate risk on the company's financial statements.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall company materiality	£5,631,000 (2022: £5,567,000).
How we determined it	In determining materiality, we considered a range of financial metrics believed to be relevant to the primary users of the consolidated financial statements. We selected a materiality amount using our professional judgement which represents 1% of insurance revenue for the year ended 31 December 2023.
Rationale for benchmark applied	In determining our materiality, we have considered financial metrics which we believe to be relevant to the primary users of the company's financial statements. We concluded insurance revenue was the most relevant benchmark to these users. Insurance revenue provides a good representation of the size and complexity of the business and it is not distorted by insured catastrophe events to which the company is exposed or the levels of reinsurance purchased by the company.

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% (2022: 75%) of overall materiality, amounting to £4,223,000 (2022: £4,175,000) for the company financial statements.

In determining the 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 an amount in the middle of our normal range was appropriate.

We agreed with the audit committee that we would report to them misstatements identified during our audit above £281,600.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- Obtaining management's going concern assessment which considered the company's capital, solvency and liquidity positions;
- Validating the analysis to supporting documentation and assessing management's scenarios whereby they considered plausible downside sensitivities;
- Performing further sensitivity analysis on management's assessment and assessing the impact on the company's capital, solvency and liquidity positions; and
- Assessing the disclosures made by management in respect of going concern.

Independent auditors' report to the members of Hiscox Insurance Company Limited (continued)

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. 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 based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2023 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' Report.

Independent auditors' report to the members of Hiscox Insurance Company Limited (continued)

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities in respect of the financial statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company'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 the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 (UK) 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 financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK regulations, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to the risk of fraud in revenue recognition and management override of controls including posting inappropriate journal entries related to revenue and bias in significant accounting estimates. Audit procedures performed by the engagement team included:

- Discussions with the Board, management, internal audit, senior management involved in the Risk and Compliance functions and the Group's legal function, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Assessment of matters reported on the company's whistleblowing helpline and fraud register and the results of management's investigation of such matters;
- Reviewing relevant board meeting minutes including those of the Risk, Investment and Audit Committee and correspondence with regulatory authorities including the Prudential Regulation Authority and the Financial Conduct Authority;
- Testing, and challenging where appropriate, the assumptions and judgements made by management in their significant accounting estimates, particularly in relation to the valuation of insurance contract liabilities and reinsurance contract assets;
- Identifying and testing journal entries, in particular manual journals posted outside of the usual business process impacting insurance revenue, journals posted by unexpected users and/or those posted late in the year end close process; and
- Testing transactions entered into outside of the normal course of the company's business;

Independent auditors' report to the members of Hiscox Insurance Company Limited (continued)

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the audit committee, we were appointed by the members on 14 October 2016 to audit the financial statements for the year ended 31 December 2016 and subsequent financial periods. The period of total uninterrupted engagement is 8 years, covering the years ended 31 December 2016 to 31 December 2023.

Thomas Rn

Thomas Robb (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
27 March 2024

HISCOX INSURANCE COMPANY LIMITED

Statement of Profit or Loss and Other Comprehensive Income for the Year Ended 31 December 2023

	Note	2023	2022 (restated)*
		£000	£000
Income			
Insurance revenue		**563,163**	554,990
Insurance service expenses		**(370,497)**	(392,564)
Insurance service result before reinsurance contracts held		**192,666**	162,426
Allocation of reinsurance premiums		**(187,429)**	(184,082)
Amounts recoverable from reinsurers for incurred claims		**41,558**	54,506
Net expense from reinsurance contracts held		**(145,871)**	(129,576)
Insurance service result		**46,795**	32,850
Investment result		**24,618**	(13,590)
Net finance (expense)/income from insurance contracts	4	**(24,987)**	16,127
Net finance income/(expense) from reinsurance contracts	4	**15,686**	(12,051)
Net insurance finance (expense)/income	4	**(9,301)**	4,076
Net financial result	4	**15,317**	(9,514)
Other income	5	**-**	49
Other operational expenses	5	**(15,503)**	(11,395)
Net foreign exchange gain/(loss)		**143**	(410)
Other finance costs		**(157)**	(188)
Profit before tax		**46,595**	11,392
Tax expense	8	**(11,572)**	(3,993)
Profit for the year and total comprehensive income		**35,023**	7,399

All profit is attributable to the owners of the Company.

* See note 2.1 for further details on the restatements for IFRS 17 and IFRS 9.

The notes on pages 24 to 87 are an integral part of these financial statements.

Balance Sheet as at 31 December 2023

	Note(s)	**2023**	2022	1 January 2022
			(restated)*	(restated)*
		£000	£000	£000
Assets				
Property, plant and equipment		**-**	-	591
Financial assets carried at fair value	10,14	**370,369**	349,862	363,493
Reinsurance contract held assets	16	**337,272**	452,329	578,734
Deferred tax assets	8	**1,129**	1,423	1,133
Trade and other receivables	9	**6,530**	6,676	6,941
Current tax assets	8	**-**	1,221	-
Cash and cash equivalents	11	**82,682**	39,466	31,298
		797,982	850,977	982,190
Equity and liabilities				
Equity				
Share capital	12	**95,000**	95,000	95,000
Share premium		**215**	215	215
Retained earnings		**116,918**	96,895	109,496
Total equity		**212,133**	192,110	204,711
Liabilities				
Deferred tax liabilities	8	**-**	2,744	670
Insurance contract liabilities	16	**528,501**	603,016	731,042
Current tax liabilities	8	**7,956**	3,583	5,262
Trade and other payables	13	**49,392**	49,524	40,505
		585,849	658,867	777,479
Total equity and liabilities		**797,982**	850,977	982,190

All equity is attributable to the owners of the Company.
* See note 2.1 for further details on the restatements for IFRS 17 and IFRS 9.

The notes on pages 24 to 87 are an integral part of these financial statements.

The financial statements on pages 20 to 23 were approved by the Board of Directors on 27 March 2024 and signed on its behalf by:

....

Thomas Shewry
Director
Hiscox Insurance Company Limited
Registered number 00070234

Statement of Changes in Equity for the Year Ended 31 December 2023

	Share Capital £000	Share Premium £000	Retained Earnings £000	Total Equity £000
At 1 January 2023	95,000	215	96,895	**192,110**
Profit for the year and total comprehensive income	-	-	35,023	**35,023**
Dividends paid to owners of the Company (See note 17)	-	-	(15,000)	**(15,000)**
Capital contribution relating to equity-settled share-based payments	-	-	6,090	**6,090**
Charge from parent for equity-settled share-based payments	-	-	(6,090)	**(6,090)**
At 31 December 2023	**95,000**	**215**	**116,918**	**212,133**

	Share Capital £000	Share Premium £000	Retained Earnings £000	Total Equity £000
At 31 December 2021 (as previously reported)	95,000	215	107,405	202,620
IFRS 17 and IFRS 9 opening equity adjustments (See note 2.1)	-	-	2,091	2,091
At 1 January 2022	95,000	215	109,496	204,711
Profit for the year and total comprehensive income	-	-	7,399	7,399
Dividends paid to owners of the Company (See note 17)	-	-	(20,000)	(20,000)
Capital contribution relating to equity-settled share-based payments	-	-	4,289	4,289
Charge from parent for equity-settled share-based payments	-	-	(4,289)	(4,289)
At 31 December 2022	95,000	215	96,895	192,110

The total equity is attributable to the owners of the Company.

The notes on pages 24 to 87 form an integral part of these financial statements.

HISCOX INSURANCE COMPANY LIMITED

Statement of Cash Flows for the Year Ended 31 December 2023

	Note	2023 £000	2022 (restated)* £000
Cash flows from operating activities			
Profit before tax		**46,595**	11,392
Adjustments for:			
Net foreign exchange (gains)/losses		**(143)**	379
Interest and equity dividend income	4	**(13,146)**	(8,110)
Interest expense		**146**	204
Net fair value (gains)/losses on financial investments	4	**(15,686)**	15,351
Depreciation, amortisation and impairment		**-**	31
Changes in operational assets and liabilities:			
Insurance and reinsurance contracts		**40,635**	(17,563)
Financial assets carried at fair value		**(4,820)**	(1,719)
Other assets and liabilities		**5,695**	19,517
Interest received		**11,774**	8,092
Interest paid		**(147)**	(204)
Tax (paid)/received		**(12,659)**	865
Net cash flows from operating activities		**58,244**	28,235
Dividends paid to the owners of the Company	17	**(15,000)**	(20,000)
Principal elements of lease payments		**-**	(30)
Net cash flows used in financing activities		**(15,000)**	(20,030)
Net increase in cash and cash equivalents		**43,244**	8,205
Cash and cash equivalents at 1 January	11	**39,466**	31,298
Effects of exchange rate changes on cash and cash equivalents		**(28)**	(37)
Cash and cash equivalents at 31 December	11	**82,682**	39,466

The purchase, maturity and disposal of financial assets is part of the Company'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.

The above statement of cash flows should be read in conjunction with the accompanying notes.

* See note 2.1 for further details on the restatements for IFRS 17 and IFRS 9.

The notes on pages 24 to 87 are an integral part of these financial statements.

Notes to the Financial Statements for the Year Ended 31 December 2023

1 General information

Hiscox Insurance Company Limited (the Company) is a Company registered in England and Wales under the Companies Act 2006. The address of the registered office is provided on page 1 and the nature of the Company's operations and principal activities are included within the Strategic Report.

2 Basis of preparation

The financial statements have been prepared in accordance with UK-adopted International Accounting Standards, in conformity with the requirements of the Companies Act 2006.

The Company is exempt from preparing consolidated financial statements by virtue of the Companies Act 2006, as its ultimate parent company prepares publicly available consolidated financial statements that are deemed to satisfy the equivalence requirement of section 401(1). These financial statements, therefore, present information about the Company as an individual undertaking only and not about its group.

The Company's financial statements have been prepared on a going concern basis. In adopting the going concern basis, the board has reviewed the Company's current and forecast solvency and liquidity positions for the next twelve months and beyond, from both the date of the balance sheet and the approval of the Financial Statements.

As part of the consideration of the appropriateness of adopting the going concern basis, the Directors use reasonably possible adverse scenarios to assess the robustness of the Company's solvency and liquidity positions. Based on the analysis undertaken during the year and at the year end, no material uncertainties that would require disclosure have been identified in relation to the ability of the Company to remain a going concern for at least the next twelve months, from both the date of the balance sheet and the approval of the Financial Statements.

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

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

The financial statements are presented in Pounds Sterling and are rounded to the nearest thousand unless otherwise stated. They are compiled on a going concern basis and prepared on the historical cost basis except that certain financial instruments including derivative instruments are measured at fair value. The balance sheet of the Company is presented in order of increasing liquidity. All amounts presented in the income statement and statement of comprehensive income relate to continuing operations.

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 2 to 6. The financial position of the Company, its cash flows, liquidity position and borrowing facilities have been reviewed by the Directors. In addition, note 3 to the financial statements includes the Company's objectives, policies and processes for managing its insurance risk and financial risk.

2 Basis of preparation *continued*

2.1 Material accounting policies information

The material accounting policies applied in the preparation of these financial statements are set out below. Except as described below, the accounting policies adopted are consistent with those of the previous financial year.

New Accounting Standards, Interpretations and Amendments to Published Standards

In these financial statements, the Company has applied IFRS 17 and IFRS 9 for the first time.

	£000
Equity as at 31 December 2021 as previously reported	202,620
Impact of IFRS 17	2,180
Impact of IFRS 9	(89)
Restated equity 1 January 2022	204,711

IFRS 17 Insurance Contracts

The Company has restated comparative information for 2022 applying the full retrospective transitional provisions of IFRS 17 Insurance Contracts.

The nature of the changes in accounting policies can be summarised, as follows:

Measurement

IFRS 17 requires a current measurement model where estimates are remeasured each reporting period. Under the General Measurement Model (GMM), contracts are measured using the building blocks of discounted probability-weighted fulfilment cash flows, including an explicit risk adjustment, and a contractual service margin (CSM) representing the unearned profit of the contract which is recognised as revenue over the coverage period. A simplification, the Premium Allocation Approach (PAA), can be applied if certain eligibility criteria are met. The majority of the Company's policies have a coverage period of 12 months or less and so are eligible for the PAA. Management applies significant judgements in assessing whether applying the PAA to groups of contracts with a coverage period extending beyond 12 months would produce a measurement of the Liability for Remaining Coverage (LRC) that would not differ materially from the one that would be produced applying GMM. Management has concluded that a majority of the Company's insurance contracts issued and reinsurance contracts held meet the criteria and the PAA is applied to measure them.

2 Basis of preparation *continued*

2.1 Material accounting policies information *continued*

IFRS 17 Insurance Contracts *continued*

The measurement principles differ from the approach used by the Company under IFRS 4. The key areas are:

- the LRC reflects premiums received less insurance acquisition cash flows and less amounts recognised in insurance revenue;
- measurement of the LRC is adjusted if a group of contracts is expected to be onerous (i.e., loss making) over the remaining coverage period and a loss is recognised immediately in the income statement under 'insurance service expenses' with the recoveries in 'amounts recoverable from reinsurers for incurred claims'. A loss component is measured as the excess of the fulfilment cash flows that relate to the remaining coverage of the group over the carrying amount of the LRC of the group of contracts;
- measurement of the reinsurance contract Asset for Remaining Coverage (ARC) reflecting reinsurance premiums paid for reinsurance held is adjusted to include a loss-recovery component to reflect the expected recovery of onerous contract losses where such contracts reinsure onerous contracts;
- measurement of the Liability for Incurred Claims (LIC) is determined on a probability-weighted expected value basis. In contrast to IFRS 4, the LIC is discounted. The LIC also includes an explicit risk adjustment to compensate for non-financial risk. The liability includes the company's obligation to pay other incurred insurance expenses;
- the discount rates used to calculate the LIC are constructed using risk-free rates, plus an illiquidity premium, where applicable. Risk-free rates are determined by reference to the market observable data (swap rates or highly liquid sovereign bonds) in the currencies of the respective (re)insurance contract liabilities. The illiquidity premium is determined based on market observable illiquidity premiums in financial assets, adjusted to reflect the liquidity characteristics of the liability cash flows;
- the risk adjustment for non-financial risk is the estimated compensation that the Company requires for bearing the uncertainty about the amount and timing of the cash flows of groups of insurance contracts. Management applies significant judgements in determining the risk adjustment amount;
- measurement of the reinsurance Asset for Incurred Claims (AIC) is similar to the LIC as set out above except for the adjustment for the effect of the risk of reinsurer's non-performance;
- the expected premium received is recognised in the income statement as part of insurance revenue over the insurance coverage period on the basis of the passage of time unless the expected pattern of release from risk differs significantly from the passage of time, in which case it is recognised based on the expected timing of incurred claims and benefits;
- all insurance and reinsurance contract assets and liabilities are monetary items. As a result, those balances denominated in foreign currencies are subject to revaluation at foreign exchange rates prevailing at the reporting date, with the impact of changes in foreign exchange rates recognised in the income statement; and
- under IFRS 4, acquisition costs were recognised and presented separately as 'deferred acquisition costs'. Under IFRS 17, the Company has taken the option to include directly attributable acquisition cash flows in the LRC which are tested separately for recoverability and are amortised as part of insurance service expenses.

Changes to presentation and disclosure

The presentation of the income statement changes, with premium and claims figures being replaced with insurance revenue, insurance service expense and insurance finance income and expenses. Gross and net written premium will no longer be presented on the face of the income statement.

2 Basis of preparation *continued*

2.1 Material accounting policies information *continued*

IFRS 17 Insurance Contracts *continued*

Further, reinsurance commission income that is contingent on claims, for example, profit commission income is treated as a part of claims recoveries cash flows and that which is not contingent on claims e.g., overrider commission is accounted for as part of premium paid or received cash flows.

Transition

On transition date, 1 January 2022, the Company:

- has identified, recognised and measured each group of insurance contracts as if IFRS 17 requirements had always applied;
- derecognised any existing balances that would not exist had IFRS 17 requirements always applied;
- performed a PAA eligibility assessment for the 2021 and prior unexpired groups of insurance and reinsurance contracts with coverage periods of longer than 12 months;
- has determined that the net impact to equity at 1 January 2022 was £2,180 thousands (increase) driven by the following factors:
    - the application of the discounting of the insurance contract liabilities and assets of £3,178 thousands (increase); and
    - offset by other differences including the recognition of onerous contract net loss components, non-performance risk, and alignment of risk adjustment and accounting policies on a consistent basis under IFRS17 of £998 thousands (decrease).

IFRS 9 Financial Instruments

The Company has adopted IFRS 9 *Financial instruments* with effect from 1 January 2023. IFRS 9 replaces IAS 39 and addresses the classification and measurement of financial assets and liabilities; impairment of financial assets; and general hedge accounting. Comparatives have been restated with adjustments to the carrying amounts of financial assets and liabilities at the date of transition recognised in retained earnings.

The adoption of IFRS 9 has resulted in changes to the Company's accounting policies for recognition, classification and measurement of financial assets and liabilities.

Transition

On the transition date, 1 January 2022, the net impact recognised in equity is £89 thousands loss, net of taxation.

Classification and measurement of financial instruments

IFRS 9 contains three principal classification categories for financial assets: amortised cost; fair value through other comprehensive income (FVOCI); and fair value through profit or loss (FVPL). On transition to IFRS 9, the Company assessed the business models and contractual cash flows of its financial instruments.

The following table reconciles the carrying amounts of financial instruments, from their previous measurement category in accordance with IAS 39, to the measurement categories upon transition to IFRS 9 on 1 January 2022, including any re-measurement impact. Certain balances previously disclosed within Trade and other receivables/payables are in scope of IFRS 17 as they are attributable to insurance contracts; these balances have been excluded from the table below as they are not in scope of IFRS 9.

2 Basis of preparation *continued*

2.1 Material accounting policies information *continued*

IFRS 9 Financial Instruments *continued*

Classification and measurement of financial instruments

	31 December 2021		1 January 2022	
	IAS 39		IFRS 9	
	Measurement category	**Carrying Amount (£000)**	**Measurement category**	**Carrying Amount (£000)**
Financial assets				
Debt and fixed income securities	FVPL	314,995	FVPL (mandatory)	314,995
Derivatives	FVPL	9	FVPL (mandatory)	9
Trade and other receivables	Loans and receivables (Amortised cost)	7,061	Amortised cost	6,941
Cash and cash equivalents	Amortised cost	31,298	Amortised cost	31,298
Total		**353,363**		**353,243**
Financial liabilities				
Trade and other payables	Amortised cost	40,505	Amortised cost	40,505
Total		**40,505**		**40,505**

The classification of financial instruments under IFRS 9 has had no impact on the carrying values previously measured under IAS 39.

The difference in the carrying amount for Trade and other receivables is due to the expected credit loss (ECL) impairment methodology introduced by IFRS 9.

Impairment allowances

IFRS 9 introduces an ECL approach for measuring impairment allowances. The ECL methodology is an unbiased, probability-weighted estimation that incorporates all available information relevant to the assessment of credit risk, including information about past events, current conditions and reasonable and supportable forecasts of economic conditions at the reporting date. The forward-looking aspect of IFRS 9 requires judgement as to how changes in economic factors affect ECLs.

2 Basis of preparation *continued*

2.1 Material accounting policies information *continued*

Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2, Making Materiality judgements - Disclosure of Accounting Policies

The Company has adopted the amendments to IAS 1 for the first time in the current year. The amendments change the requirements in IAS 1 with regard to disclosure of accounting policies. The amendments replace all instances of the term 'significant accounting policies' with 'material accounting policy information'. These amendments had no impact on the financial statements of the Company.

Amendments to IAS 12 Income Taxes

The Company has adopted the amendments to IAS 12 published on 12 May 2023 for the first time in the current year. The amendments address accounting for income taxes arising from tax law enacted to implement the Pillar Two model rules published by the Organisation for Economic Co-operation and Development (OECD) ('Pillar Two legislation'). Various jurisdictions in which the Hiscox Group operates have enacted or substantively enacted Pillar Two legislation before the balance sheet date, including domestic top-up tax and multinational top-up taxes, effective for accounting periods starting on or after 31 December 2023. The Company has applied the exception under the IAS 12 amendment to recognising and disclosing information about deferred tax assets and liabilities related to top-up income taxes. See note 8 for details of potential impact of these new rules on future accounting periods. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Other than discussed above, new standards, amendments to standards and interpretations, as adopted by the UK, that are effective for annual periods beginning on 1 January 2023 have been applied in preparing these financial statements and had no material impact on the Company.

- Amendments to IAS 12 Income Taxes - Deferred Tax related to Assets and Liabilities arising from a Single Transaction.
- Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors - Definition of Accounting Estimates.

Future accounting developments

The following new standards, and amendments to standards, are effective for annual periods beginning after 1 January 2023 and have not been applied in preparing these financial statements:

- Amendments to IAS 1 - Classification of Liabilities as Current or Non-Current and Non-current liabilities with Covenants.
- Amendments to IFRS 16 - Lease liability in a Sale and Leaseback.
- Amendments to IAS 7 and IFRS 7 - Supplier finance arrangements.
- Amendments to IFRS 10 and IAS 28 - Sale or contribution of assets between an investor and its associate or joint venture.

2.2 Foreign currency translation

The functional and presentational currency of the Company is Sterling. 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. Non-monetary items carried at historical cost are translated in the balance sheet at the exchange rate prevailing at the date of original transaction. Non-monetary items measured at fair value are translated using the exchange rate ruling when the fair value was determined.

2 Basis of preparation *continued*

2.3 Financial assets and liabilities

The Company classifies its financial assets in the following measurement categories, which depend on the business model for managing the financial assets and the contractual terms of the cash flows:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest (SPPI), and that are not designated at fair value through profit or loss (FVPL), are measured at amortised cost. Interest income from these financial assets is included in interest income using the effective interest rate method. Such assets held by the Company include cash and cash equivalents, receivables from brokers, prepayments and accrued income, receivables and accrued interest and other debtors.

- Fair value through other comprehensive income (FVOCI): Assets that are held for collection of contractual cash flows and for selling the financial assets, and where the cash flows represent SPPI, and that are not designated as FVPL, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss on the instrument's amortised cost previously recognised in OCI is reclassified from equity to profit or loss. Interest from these financial assets is included in interest income using the effective interest rate method. The Company does not hold any assets at FVOCI as the business model criteria are not met.

- Fair value through profit or loss (FVPL): Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. Assets can also be designated to FVPL if in doing so it eliminates, or significantly reduces, an accounting mismatch. The gains or losses arising from fair value changes on assets measured at FVPL are recognised in profit or loss and presented within investment result in the period in which it arises. The Company's investment assets in this category include government bonds, corporate bonds, asset and mortgage-backed securities, other fixed income holdings, equities, investment funds, insurance linked funds and derivatives. All these assets are at FVPL because of the business model test and the characteristics of the associated contractual cash flows.

Recognition
The Company recognises a financial asset or a financial liability in its balance sheet when, and only when, it becomes a party to the contractual provisions of the instrument. At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Impairment allowances
IFRS 9 outlines an expected credit loss (ECL) model for all assets measured at amortised cost and FVOCI. The assessment of credit risk and the estimation of an ECL are unbiased, probability-weighted and incorporate all available information relevant to the assessment, including information about past events, current conditions and reasonable and supportable forecasts of economic conditions at the reporting date. The forward-looking aspect of IFRS 9 requires judgement as to how changes in economic factors affect ECLs. Impairment charges are recognised in the Income Statement within operational expenses.

2 Basis of preparation *continued*

2.3 Financial assets and liabilities *continued*

The ECL is a three-stage model based on forward looking information regarding changes in credit quality since inception. Credit risk is measured using a probability of default (PD); exposure at default (EAD); and loss given default (LGD) as follows:

- PD is an estimate of the likelihood of default of the asset.
- EAD is an estimate of the exposure at that future default date, taking into account expected changes in the exposure after the reporting date.
- LGD is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the Company would expect to receive. It is usually expressed as a percentage of the exposure at default.

A significant increase in credit risk is considered to have incurred when payments are 30 days past due, or earlier if other factors indicate the risk has increased significantly since inception.
Financial assets are written off when there is no reasonable expectation of recovery on a case-by-case basis.

Derecognition
Financial assets are derecognised when the contractual rights to receive the cash flows from the financial assets have expired; or they have been transferred and the Company transfers substantially all the risks and rewards of ownership; or they have been transferred and the Company neither transfers nor retains substantially all the risks and rewards of ownership and the Company has not retained control. Any gain or loss arising from derecognition is recognised directly in profit or loss. A financial liability is derecognised when the obligation under that liability is discharged, cancelled or expires.

Investment income
The total gain/loss from financial assets carried at fair value through profit or loss (FVPL) is recognised in profit or loss and disclosed in the notes as investment income comprising interest received, realised gains/losses and unrealised gains/losses.

Financial liabilities
At initial recognition, the Company classifies a financial liability at fair value and subsequently at amortised cost using the effective interest rate method. Financial liabilities mainly include payables to brokerage customers, short term borrowings, long term borrowings and bonds payable.
When all or part of the current obligations of a financial liability have been discharged, the Company derecognises the portion of the financial liability or obligation that has been discharged. The difference between the carrying amount of the derecognised liability and the consideration is recognised in profit or loss.

Derivative financial liabilities are measured at fair value through profit or loss. All the related realised and unrealised gains or losses and transaction costs are recognised in profit or loss.

2 Basis of preparation *continued*

2.4 Cash and cash equivalents

The Company 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.

2.5 Insurance and reinsurance contracts

The accounting policy set out below is applicable to insurance and reinsurance contracts that are issued by the Company and reinsurance contracts held by the Company unless indicated otherwise.

Classification
Insurance contracts are defined as those containing significant insurance risk. Significant insurance risk criteria are met 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 Company issues short-term casualty and property (re)insurance contracts in the normal course of business, under which it accepts significant insurance risk from its policyholders. The Company also enters into ceded reinsurance contracts with reinsurers under which the Company transfers significant insurance risk to reinsurers and is compensated for claims on contracts issued by the Company.

Separating components
The Company assesses its insurance and reinsurance products to determine whether they contain distinct components which must be accounted for under another IFRS instead of under IFRS 17. After separating any distinct components, the Company applies IFRS 17 to all remaining components of the (host) insurance contract. Currently, the Company's products do not include any distinct components that require separation.

Some reinsurance contracts issued contain profit commission arrangements. Under these arrangements, there is a guaranteed minimum amount that the policyholder will always receive - either in the form of profit commission, or as claims, or another contractual payment irrespective of the insured event happening. The guaranteed minimum amounts have been assessed to be highly interrelated with the insurance component of the reinsurance contracts and are, therefore, non-distinct investment components which are not accounted for separately. However, receipts and payments of these investment components are excluded from insurance revenue and expenses.

2 Basis of preparation *continued*

2.5 Insurance and reinsurance contracts *continued*

Level of aggregation

Insurance contracts are aggregated into groups for measurement purposes. The level of aggregation for the Company is determined firstly by grouping contracts into portfolios which, with some limited exceptions, are set as the reserving classes of each legal entity. Portfolios comprise groups of contracts with similar risks which are managed together. Portfolios are further divided based on expected profitability at inception into three categories: onerous contracts, contracts with no significant risk of becoming onerous, and the remainder. No group for level of aggregation purposes may contain contracts issued more than one year apart. The grouping of contracts is not subsequently reconsidered.

A group of insurance contracts is considered to be onerous at initial recognition if the fulfilment cashflows allocated to that group of contracts in total are a net outflow. That is if the present value of expected claims, attributable expenses and risk adjustment exceeds the premium.

Portfolios of reinsurance contracts held are assessed for aggregation separately from portfolios of insurance contracts issued. Reinsurance contracts held cannot be onerous.

Recognition and derecognition

Groups of insurance contracts issued are initially recognised from the earliest of the following:

- the beginning of the coverage period;
- the date when the first payment from the policyholder is due, or actually received if there is no due date; and
- when the Company determines that a group of contracts becomes onerous.

Insurance contracts acquired in a business combination within the scope of IFRS 3 Business Combinations or a portfolio transfer are accounted for as if they were entered into at the date of acquisition or transfer.

Reinsurance contracts held are recognised as follows:

- a group of reinsurance contracts held that provide proportionate coverage is recognised at the later of the following dates (unless underlying contracts are onerous, in which case earlier recognition is required):
    - the beginning of the coverage period of the group; and
    - the initial recognition of any underlying insurance contract;
- all other groups of reinsurance contracts held are recognised from the beginning of the coverage period of the group of reinsurance contracts held; unless the Company entered into the reinsurance contract held at or before the date when an onerous group of underlying contracts is recognised prior to the beginning of the coverage period of the group of reinsurance contracts held, in which case the reinsurance contract held is recognised at the same time as the group of underlying insurance contracts is recognised.

2 Basis of preparation *continued*

2.5 Insurance and reinsurance contracts *continued*

Only contracts that individually meet the recognition criteria by the end of the reporting period are included in the groups. When contracts meet the recognition criteria in the groups after the reporting date, they are added to the groups in the reporting period in which they meet the recognition criteria. Composition of the groups is not reassessed in subsequent periods.

An insurance contract is derecognised when it is:

- extinguished (that is, when the obligation specified in the insurance contract expires or is discharged or cancelled); or
- the contract is modified such that the modification results in a change in the measurement model e.g., GMM or the applicable standard for measuring a component of the contract, substantially changes the contract boundary, or requires the modified contracts to be included in a different group.

When a modification is not treated as a derecognition, the Company recognises amounts paid or received for the modification of the contract as an adjustment to the relevant liability or asset for remaining coverage.

When a group of insurance contracts is derecognised, adjustments to remove related rights and obligations result in the following amounts being charged immediately to the income statement:

- if the contract is extinguished, any net difference between the derecognised part of the LRC of the original contract and any other cash flows arising from extinguishment;
- if the contract is transferred to the third party, any net difference between the derecognised part of the LRC of the original contract and the premium charged by the third party; or
- if the original contract is modified resulting in its derecognition, any net difference between the derecognised part of the LRC and the hypothetical premium that the entity would have charged if it had entered into a contract with equivalent terms as the new contract at the date of the contract modification, less any additional premium charged for the modification.

Contract boundary
The Company uses the concept of contract boundary to determine what cash flows should be considered in the measurement of groups of insurance contracts. Cash flows are within the boundary of an insurance contract if they arise from substantive rights and obligations that exist during the reporting period in which the Company can compel the policyholder to pay the premiums, or in which the Company has a substantive obligation to provide the policyholder with services. A substantive obligation to provide services ends when:

- The Company has the practical ability to reassess the risks of the particular policyholder and, as a result, can set a price or level of benefits that fully reflects those risks; or
- Both of the following criteria are satisfied:
    - The Company has the practical ability to reassess the risks of the portfolio of insurance contracts that contain the contract and, as a result, can set a price or level of benefits that fully reflects the risk of that portfolio;
    - The pricing of the premiums for coverage up to the date when the risks are reassessed does not take into account the risks that relate to periods after the reassessment date.

A liability or asset relating to expected premiums or claims outside the boundary of the insurance contract is not recognised. Such amounts relate to future insurance contracts.

2 Basis of preparation *continued*

2.5 Insurance and reinsurance contracts *continued*

Measurement - Premium Allocation Approach

Initial measurement

The Company applies the premium allocation approach (PAA) to the majority of the insurance contracts that it issues and reinsurance contracts that it holds, because:

- The coverage period of each contract in the group is one year or less; or
- For contracts longer than one year, the Company has modelled possible future scenarios and reasonably expects that the measurement of the LRC for the group containing those contracts under the PAA does not differ materially from the measurement that would be produced applying the general model.

For insurance contracts issued, on initial recognition, the Company measures the LRC as the amount of premiums received, less any acquisition cash flows paid and any amounts arising from the derecognition of the insurance acquisition cash flows asset and the derecognition of any other relevant pre-recognition cash flows.

For reinsurance contracts held, on initial recognition, the Company measures assets for the remaining coverage at the amount of ceding premiums paid, plus broker fees paid to a party other than the reinsurer and any amounts arising from the derecognition of any other relevant pre-recognition cash flows.

For insurance contracts issued, insurance acquisition cash flows allocated to a group are recognised over the coverage period of contracts in the group. For reinsurance contracts held, broker fees are recognised over the coverage period of contracts in a group.

Subsequent measurement

For insurance contracts issued, at each of the subsequent reporting dates, the LRC is:

- increased for premiums received in the period;
- decreased for insurance acquisition cash flows paid in the period;
- decreased for the amounts of expected premium receipts recognised as insurance revenue for the services provided in the
- period;
- increased for the amortisation of insurance acquisition cash flows in the period recognised as insurance service expenses; and decreased for any investment component paid or transferred to the liability for incurred claims.

For reinsurance contracts held, at each of the subsequent reporting dates, the remaining coverage is:

- increased for ceding premiums paid in the period;
- increased for broker fees paid in the period;
- decreased for the expected amounts of ceding premiums and broker fees recognised as reinsurance expenses for the services received in the period; and
- decreased for any investment component paid or transferred to the reinsurance assets for incurred claims.

The Company does not adjust the LRC for insurance contracts issued or the remaining coverage for reinsurance contracts held for the effect of the time value of money, because associated premiums are due within one year of the coverage period.

2 Basis of preparation *continued*

2.5 Insurance and reinsurance contracts *continued*

Subsequent measurement continued
The Company estimates the Liability for Incurred Claims (LIC) as the fulfilment cash flows related to incurred claims. The fulfilment cash flows incorporate, in an unbiased way, all reasonable and supportable information available without undue cost or effort about the amount, timing and uncertainty of those future cash flows.

If facts and circumstances indicate that a group of insurance contracts measured under the PAA is onerous on initial recognition or has become onerous subsequently, the Company increases the carrying amount of the LRC, recognising a loss component, to the amounts of the excess of the fulfilment cash flows that relate to the remaining coverage of the group of contracts, over the carrying amount of the LRC of the group. The amount of such an increase is recognised in insurance service expenses. Subsequently, the loss component is amortised over the coverage period of the group of contracts.

When a loss is recognised on initial recognition of an onerous group of underlying insurance contracts or on addition of onerous underlying insurance contracts to that group, the carrying amount of the reinsurance asset for remaining coverage for reinsurance contracts held measured under the PAA is increased by the amount of expected recoveries that will be in the income statement and a loss recovery component is established or adjusted for that amount. The loss recovery component is calculated by multiplying the loss component recognised on underlying insurance contracts by the percentage of claims on underlying insurance contracts that the Company expects to recover from the reinsurance contracts held that are entered into before or at the same time as the loss is recognised on the underlying insurance contracts. When underlying insurance contracts that are reinsured are included in the same group as insurance contracts issued that are not reinsured, the Company applies a systematic and rational method of allocation to determine the portion of losses that relates to underlying insurance contracts.

Insurance revenue
The insurance revenue for the period is the amount of expected premium receipts (excluding any investment component) allocated to the period. The Company allocates the expected premium receipts to each period of insurance contract services on the basis of the passage of time. But if the expected pattern of release of risk during the coverage period differs significantly from the passage of time, for example a group of contracts that is exposed to large natural catastrophe risk concentrated in the first or second half of the year, then the allocation is made on the basis of the expected timing of incurred insurance service expenses.

Changes to the basis of allocation are accounted for prospectively as a change in accounting estimate.

Insurance service expenses
Insurance service expenses include the following:

- incurred claims, excluding investment components reduced by loss component allocations;
- other incurred directly attributable expenses;
- insurance acquisition cash flows amortisation using the pattern that is consistent with the insurance revenue;
- changes that relate to past service;
- changes that relate to future service;
- insurance acquisition cash flows assets impairment; and
- mandatory reinstatement premiums.

2 Basis of preparation *continued*

2.5 Insurance and reinsurance contracts *continued*

Insurance service expenses *continued*
Other expenses not meeting the above categories are included in other operating expenses in the Income statement.

Allocation of reinsurance premiums
The allocation of reinsurance premiums includes reinsurance premiums and other incurred directly attributable expenses. Reinsurance premium and expenses are recognised similarly to insurance revenue. The amount of reinsurance expenses recognised in the reporting period depicts the transfer of received insurance contract services at an amount that reflects the portion of ceding premiums that the Company expects to pay in exchange for those services. Additionally, broker fees and ceding commissions that are not contingent on claims of the underlying contracts issued reduce ceding premiums and are accounted for as part of reinsurance premiums.

In addition, the allocation of reinsurance premiums also includes changes in the reinsurance assets arising from retroactive reinsurance contracts held and voluntary reinstatement ceded premiums.

Amounts recoverable from reinsurers for incurred claims
The amounts recoverable from reinsurers for incurred claims include:

- incurred claims recoveries, excluding investment components;
- loss-recovery component allocations;
- changes that relate to past service;
- effect of changes in the risk of reinsurers' non-performance;
- amounts relating to accounting for onerous groups of underlying insurance contracts issued;
- ceding commissions that are contingent on claims of the underlying contracts issued reduce incurred claims recovery; and
- mandatory reinstatement ceded premiums.

Insurance finance income or expenses
Insurance finance income or expenses comprise the change in the carrying amount of the group of insurance contracts arising from:

- the effect of the time value of money and changes in the time value of money. This mainly comprises of interest accreted on the LIC and interest unwind on the AIC; and
- the effect of financial risk and changes in financial risk. This mainly includes the effect of changes in interest rates i.e., discount rates.
- The Company does not disaggregate changes in the risk adjustment for non-financial risk between insurance service result and
- insurance finance income or expenses. The change in the risk adjustment is entirely presented as part of the insurance service result.

Foreign exchange gains and losses continue to be presented as Net other foreign exchange gain/(loss) line item.

2 Basis of preparation *continued*

2.6 Taxation

Current tax, including UK 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 at 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 the future taxable profit will be available against which the temporary differences can be utilised.

2.7 Segmental reporting

In accordance with IFRS 8, the Company does not disclose financial information by segment as it is not a publicly traded company. The Company's parent includes the results of the Company within a number of segments disclosed in the Group consolidated financial statements.

2.8 Finance costs

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

2 Basis of preparation *continued*

2.9 Provisions

Provisions are recognised for 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.

2.10 Dividend distribution

Dividend distribution to the Company's shareholder is recognised when paid as an interim dividend and for final dividends as a liability in the Company's financial statements in the period in which the dividend is approved by shareholders.

2.11 Employee benefits

Performance Share Plan awards are granted to Directors and to senior employees. No exercise price is attached to performance plan awards, although their attainment is conditional on the employee completing three years' service (the vesting period) and Hiscox Ltd achieving certain targets. 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 Hiscox Ltd achieves its targets of return on equity or net asset value; the options have a contractual option term of ten years. Hiscox Ltd has no legal or constructive obligation to repurchase or settle the options in cash.

2.12 Use of significant accounting judgements, estimates and assumptions

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

The Audit Committee reviews the reasonableness of significant judgements, estimates and assumptions applied and the appropriateness of material accounting policies information.

Significant accounting judgements
The following accounting policies are those considered to have a significant impact on the amounts recognised in the financial statements, with those judgements involving estimation summarised thereafter.

- Insurance contract: assessment of the significance of insurance risk transferred to the Company in determining whether a contract should be accounted for as an insurance contract or as a financial instrument. This includes assessing the risk transferred on portfolio transfers and the appropriate presentation of retroactive reinsurance transactions.

Insurance and reinsurance contracts
The Company applies the PAA to simplify the measurement of insurance contracts. When measuring liabilities for incurred claims, the Company applies discounting and includes an explicit risk adjustment for non-financial risk.

2 Basis of preparation *continued*

2.12 Use of significant accounting judgements, estimates and assumptions *continued*

Liability for incurred claims

The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques. The Company 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 main assumption underlying these techniques is that a Company's past claims development experience can be used to project future claims development and hence ultimate claims costs. These methods extrapolate the development of paid and incurred losses, average costs per claim (including claims handling costs), and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analysed by accident years, but can also be further analysed by geographical area, as well as by significant business lines and claim types. In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios. Instead, the assumptions used are those implicit in the historical claims development data on which the projections are based. Additional qualitative judgement is used to assess the extent to which past trends may not apply in future, (e.g., to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy features and claims handling procedures) in order to arrive at the estimated ultimate cost of claims that present the probability-weighted expected value outcome from the range of possible outcomes, taking account of all the uncertainties involved.

Risk adjustment for non-financial risk

The risk adjustment for non-financial risk is the compensation that the Company requires for bearing the uncertainty about the amount and timing of the cash flows of groups of insurance contracts. The risk adjustment reflects an amount that an insurer would charge to make it indifferent between the cash flows with a range of probable scenarios versus equivalent fixed cash flows.

To determine the risk adjustment for non-financial risk for reinsurance contracts, the Company applies a combination of a Value at Risk (VaR) (or a percentile) approach and a scenario-based approach both gross and net of reinsurance and derives the amount of risk being transferred to the reinsurer as the difference between the two results. Most business is measured under the PAA model and therefore the Company does not calculate a risk adjustment in relation to LRC excluding loss component.

For the incurred claim liabilities measurement purposes, the Company calculates the risk adjustment in accordance with its risk profile using a combination of Value at Risk method and scenario analysis targeting an overall confidence level for the aggregate risk distribution. Scenario analysis is used to determine the level of compensation that the Company requires for bearing uncertainty about the large event-driven claims e.g., natural catastrophe. This element of the compensation for risk takes into consideration the range of potential outcomes from an event and the sensitivities of the loss positions in any modelled scenarios. Given the nature of the underlying business and losses it is normal for new risks to become apparent or for the magnitude of existing risks to change over time.

The confidence level is calculated for each individual insurance undertaking within the Hiscox Group. At 31 December 2023, the risk adjustment for the Company in respect of the LIC net of reinsurance is at the 70.5th percentile (31 December 2022: 71.9th percentile).

2 Basis of preparation *continued*

2.12 Use of significant accounting judgements, estimates and assumptions *continued*

Premium Allocation Approach eligibility assessment
A simplified measurement model, the PAA, can be applied if certain eligibility criteria are met. The majority of the Company's policies have a coverage period of 12 months or less and so are eligible for the PAA. Management applies significant judgements in assessing whether to apply the PAA to groups of contracts with a coverage period extending beyond 12 months.

Significant accounting estimates and assumptions
All estimates are based on management's knowledge of current facts and circumstances, assumptions based on that knowledge and their predictions of future events. Actual results may differ from those estimates, possibly significantly. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

The most significant estimate included within the Company's balance sheet is the measurement of insurance contract liabilities and reinsurance contract held assets, and in particular the estimate of the liability for incurred claims (LIC). The total gross estimate of LIC as at 31 December 2023 is £472,844 thousands (2022: £552,422 thousands). The total estimate for reinsurance asset for incurred claims as at 31 December 2023 is £324,768 thousands (2022: £416,673 thousands).

Insurance and reinsurance contracts
In applying IFRS 17 measurement requirements, the following inputs and methods were used that include significant estimates. The present value of future cash flows is estimated using deterministic scenarios. The assumptions used in the deterministic scenarios are derived to approximate the probability-weighted mean of a full range of scenarios. For the sensitivities with regard to the assumptions made that have the most significant impact on measurement under IFRS 17 please refer to note 3 Management of risk.

Discount rates
Insurance contract liabilities are calculated by discounting expected future cash flows at a risk-free rate, plus an illiquidity premium where applicable. Risk-free rates were derived using swap rates available in the market denominated in the same currency as the insurance contracts being measured. When swap rates are not available, highly liquid sovereign bonds with the highest e.g. AAA/AA credit rating were used.

Management uses judgement to assess liquidity characteristics of the liability cash flows. The illiquidity premium was estimated based on market observable liquidity premiums in financial assets, adjusted to reflect the illiquidity characteristics of the liability cash flows. The illiquidity premium is determined by reference to market observable AA-rated bonds yield curve in the currency of the insurance contract being measured adjusted to remove both expected and unexpected credit risk.

2 Basis of preparation *continued*

2.12 Use of significant accounting judgements, estimates and assumptions *continued*

Discount rates continued

The following discount rates were applied for the currencies and periods presented below:

	Year end 31 December 2023		
	1 year	**3 year**	**5 year**
USD	**4.83%**	**3.92%**	**3.74%**
GBP	**4.97%**	**4.12%**	**3.82%**
EUR	**3.49%**	**2.75%**	**2.65%**
CAD	**4.63%**	**3.69%**	**3.39%**

	Year end 31 December 2022		
	1 year	3 year	5 year
USD	4.90%	4.24%	4.00%
GBP	4.59%	4.64%	4.55%
EUR	3.12%	3.28%	3.31%
CAD	4.66%	4.03%	3.74%

Estimates of future cash flows to fulfil insurance contracts
Included in the measurement of each group of contracts within the scope of IFRS 17 are all of the future cash flows within the boundary of each group of contracts. The estimates of these future cash flows are based on probability-weighted expected future cash flows. The Company estimates which cash flows are expected and the probability that they will occur as at the measurement date. In setting these expectations, the Company uses information about past events, current conditions and forecasts of future conditions. The Company's estimate of future cash flows is the mean of a range of scenarios that reflect the full range of possible outcomes. Each scenario specifies the amount, timing and probability of cash flows. The probability-weighted average of the future cash flows is calculated using a deterministic scenario representing the probability-weighted mean of a range of scenarios.

Where estimates of expenses-related cash flows are determined at the portfolio level or higher, they are allocated to groups of contracts on a systematic basis, such as activity-based costing method. The Company has determined that this method results in a systematic and rational allocation. Similar methods are consistently applied to allocate expenses of a similar nature. Acquisition cash flows are typically allocated to groups of contracts based on gross premiums written. This includes an allocation of acquisition cash flows among existing groups of insurance contracts issued. Claims settlement-related expenses are largely allocated based on claims costs.

Uncertainty in the estimation of future claims and benefit payments arises primarily from the severity and frequency of claims and uncertainties regarding future inflation rates leading to claims and claims-handling expenses growth. Assumptions used to develop estimates about future cash flows are reassessed at each reporting date and adjusted where required.

2 Basis of preparation *continued*

2.12 Use of significant accounting judgements, estimates and assumptions *continued*

The Company 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 14 discusses the reliability of the Company's fair values.

Taxation

In preparing the financial statements, the Company applies judgements in the measurement of the provision for taxation being the best estimate of the amount expected to become payable. The assessment is based on the judgement of tax professionals within the Group 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 Company. In preparing the Company's financial statements, management estimates taxation assets and liabilities after taking appropriate professional advice, as shown in note 8. Significant estimates and assumptions used in the valuation of deferred tax relate to the forecast taxable profits, taking into account the Company's financial and strategic plans. See note 8 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.

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

3 Management of risk

The Company's success depends on how well exposures to key risk types are managed and understood. These consist of strategic risk, insurance (underwriting and reserve) risk, market risk, liquidity risk, credit risk, operational risk, regulatory and legal, and Group risks. Risk informs every important decision that is made.

HIC has continued to closely monitor its capital and liquidity and maintained these within risk appetite at all times. Inflation remained as a significant factor during 2023 and further details are included in note 16.

Risk strategy

The Company's 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. The Company's risk strategy is based upon three key principles:

- maintaining underwriting discipline;
- balancing and maintaining diversity through the underwriting cycle; and
- a transparent approach to risk, which allows us to continuously improve in awareness and hone our response.

Risk management framework

HIC has an established Risk Management Framework (RMF) in place. The risk management framework is designed to operate continuously. It is reviewed and enhanced regularly in light of changes to the risks HIC is exposed to, the external environment and evolving practice on risk management and governance.

At the core of the RMF is the Own Risk and Solvency Assessment (ORSA) process, which integrates risk and capital management and business planning to ensure a holistic approach to the management and oversight of the Group. Furthermore, encompassing the RMF is clear and effective risk governance, which enables clear risk roles, responsibilities and accountabilities across the Group, and facilitates the escalation of risk issues. Central to this is the role of the Board to steer the development of the RMF.

The Board has ultimate responsibility for setting HIC's risk strategy and the amount of risk that the Company can accept in order to maximise the likelihood of achieving business plan objectives and for the overall effectiveness of the risk management framework.

Risk appetite

Taking risk is a fundamental attribute of HIC's business model and its value proposition to clients. HIC's Risk Appetite Framework facilitates the monitoring and management of risks by setting clear limits and parameters within which risk taking is acceptable and signalling the thresholds above which risks need to be escalated through the appropriate channels. Risk appetite is the articulation of the Board's willingness to take on risk, given ability or capacity.

HIC's risk appetite is communicated in qualitative and quantitative terms, describing the level and types of risk the Board is willing to assume in order to achieve their strategic objectives and business plan. HIC's risk appetite framework allows clear monitoring and management of risk exposure in relation to the Board's willingness to take on risk.

3 Management of risk *continued*

Risk management across the business

HIC coordinates risk management roles and responsibilities across three lines of defence. These are set out below:

First line of defence *Owns risk and controls*	Responsible for ownership and management of risks on a day-to-day basis. Consists of everyone at every level in the organisation, as all have responsibility for risk management at an operational level.
Second line of defence *Assesses, challenges and advises on risk objectively*	Provides independent oversight, challenge and support to the first line of defence. Consists of the Group risk team and the compliance team.
Third line of defence *Provides independent assurance of risk control*	Provides independent assurance to the Board that risk control is being managed in line with approved policies, appetite, frameworks and processes, and helps verify that the system of internal control is effective. Consists of the internal audit function.

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 reserving, investments and credit, as well as emerging risks. The Group Risk and Capital Committee and the Group Underwriting Review Committee make wider Group level decisions on risk.

The Company also participates in risk management activities as part of the wider Hiscox Group, which includes governance forums for risks such as underwriting and information security. Furthermore, the Group's emerging risk forum assesses risks and opportunities that could potentially affect the business. Stress testing and scenario analysis is also performed to help identify possible dependencies and correlations between risks, which could impact upon the business strategy.

The role of the Board in risk management

The Board has ultimate responsibility for the overall effectiveness of business operations and the RMF, including oversight of the three lines of defence, ensuring appropriate and proportionate balance is maintained. The HIC Board is ultimately responsible for the oversight of HIC's performance and risk management. There is an established system of governance with defined segregation of duties and delegation of responsibilities to various committees and meetings reporting to the Board. There are two sub-committees that report to the HIC Board - the Audit Committee and the Risk Committee. These are further supported by the Reserving Committee and the Divisional Investment Group (DIG).

The HIC Audit Committee and the HIC Risk Committee are each chaired by a HIC independent Non-executive Director (NED). The HIC Reserving Committee is chaired by the CFO of Hiscox Limited and its group of companies (Hiscox Group or the Group). The chair of the DIG is appointed by the Hiscox Investment Group.

3 Management of risk *continued*

Role of the Group Risk team

Within the second line of defence, the HIC Chief Risk Officer (CRO) is ultimately accountable for the overall management of the risk management framework and associated strategies, processes and reporting procedures. To ensure their independence and objectivity, the HIC CRO reports to the Group CRO who has a dotted line reporting to the Group Risk Committee Chair. The HIC CRO is also entitled to direct reporting to the HIC Board and has independent access to the Board's Directors, including the HIC Risk Committee Chair. The HIC CRO is the Senior Management Function (SMF) 4 function holder for HIC, supported by the UK Senior Risk Manager. Both these roles are independent from first line decision-making.

ORSA Framework

The ORSA Framework is defined as the set of ongoing practices and business decisions that HIC engages in to identify, measure, monitor, manage and report the risks to which it is exposed and to determine the corresponding capital needs on a current and forward-looking basis. The ORSA is an integral component of risk management specifically considering:

- HIC's approved strategy and business plan; composition and dynamics of HIC's current and forward-looking risk profiles, aligned to approved risk limits, strategies and business plans, and the extent to which the risk profile is aligned to the assumptions underlying the regulatory capital requirement;
- HIC's regulatory capital requirements, whether they are appropriate for its risk profile and whether there are sufficient high-quality assets available to meet them; robustness of HIC's current and prospective solvency and liquidity, including consideration of a range of potential scenarios that could stress the business models, and how management and the Boards would respond should those circumstances arise; and
- Maintaining sufficient financial strength to pay insureds.

Climate Change

HIC manages climate change risk in accordance with the Hiscox sustainability strategy and in line with relevant policies including the Group's Environmental, Social, and Governance (ESG) Exclusions Policy. The Hiscox Group continues to take a strategic, holistic and long-term approach to managing risks associated with climate change which are considered as part of its overarching sustainability strategy, and HIC leverages and utilises this framework in order to manage any relevant sustainability risks.

HIC closely monitors claims experience and utilises centralised tools and activities such as capital modelling, catastrophe modelling, risk modelling and investment management to monitor and manage climate change risk. During 2023, we reviewed and refreshed our sustainability strategy and we also completed our first double materiality assessment for the Group as we start to define our most material sustainability-related risks and opportunities. We also made progress in other key areas, including the development of underwriting products for specific emerging professions and sectors in environmental and ESG-related business.

3 Management of risk *continued*

Principal risks

Some of the principal risks facing the organisation are described on the following pages.

a) Strategic risk

The possibility of adverse outcomes that may result from strategic options/ business initiatives taken or not taken or not taken by the Company. This may include business expansion or contraction, mergers and acquisitions, negative impacts to reputation or brand, or failure of the Board to provide adequate oversight of the business or make appropriate business decisions.

What is the risk?	Why does it apply?	How is it managed?
Strategy evolution and execution This is the risk of ineffective business plans and strategies, decision making, resource allocation or adaptation to changes in the business environment.	Setting the right course and long-term strategic objectives is essential for the long-term success of the Company.	The Company pursues its strategic objectives as set out by its leadership team and approved by the Board through the operating plan process. In addition, the Group-level Executive Committee sets out a common set of strategic objectives for the Group that cut across businesses and functions. These are based on the collective understanding of internal challenges and priorities, as well as external factors.
Conduct risk This is the failure to pay due regard to the interests of customers or treat them fairly. This includes consideration of the way products are designed, sold and serviced.	The Company strives to provide excellent service and have the customer at the heart of everything we do. Conduct is also a key consideration of regulators, so it is essential that good customer outcomes can be demonstrated and evidenced.	The Company has a conduct risk strategy and framework that sets out how to demonstrate that customers receive good outcomes and regulatory requirements are met. There is a product governance forum to approve products prior to sale and ensure they are subject to periodic review. There is a dedicated first line conduct team that sit within the business. They help to ensure customer detriment is avoided or appropriately addressed.

The predominant risk to which the Company is exposed is insurance risk which is assumed through the underwriting process. Insurance risk can be sub-categorised into i) underwriting risk and ii) reserving risk.

b) Insurance risk - Underwriting risk

The risk that insurance premiums will not be sufficient to cover insurance claims that have yet to occur and associated expenses, or that actual exposures taken on do not align to the Company's underwriting strategy.

3 Management of risk *continued*

Principal risks *continued*

b) Insurance risk - Underwriting risk continued

What is the risk?	Why does it apply?	How is it managed?
Pricing This is the risk of failure to price policies adequately or make commercial risk selection decisions.	The Company operates in an open and competitive market. Competitors may choose to differentiate themselves by undercutting their rivals. As a result, capacity levels in the market rise and fall, causing prices to go up and down, creating volatile market cycles.	The Company adapts its desire to write certain lines of business according to market conditions and its overall risk appetite. Business unlikely to generate underwriting profits is rejected and pricing levels are regularly monitored, producing detailed monthly reports on how pricing and exposures are developing. Pricing adequacy is assessed via the peer review process. All underwriters and classes of business are subject to peer review. All underwriters and classes of business are also subject to independent review.
Underwriting exposure management This is the risk that insurance exposures accumulate to an unacceptable level, are not fully understood or materialise unexpectedly. The Company buys reinsurance protection to manage catastrophe risk and reduce the volatility that major losses could have on its financial position. If the Company's reinsurance protection were proven to be inadequate or inappropriate, it could significantly affect its financial condition.	The Company has to carefully manage risk exposure by class of business and location to remain within appetite and fulfil strategic objectives.	Specific underwriting objectives such as aggregation limits and reinsurance protection thresholds are prepared and reviewed by the HIC Board in order to translate the 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 Company also manages underwriting risk by purchasing reinsurance (both externally and internally through Hiscox Insurance Company (Bermuda) Limited (HIB) via a quota-share reinsurance treaty). Reinsurance protection, such as excess of loss cover, is purchased to mitigate the effect of 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.

3 Management of risk *continued*

Principal risks *continued*

b) Insurance risk - Underwriting risk continued

What is the risk?	Why does it apply?	How is it managed?
Authority breach This is the risk of accepting risks outside of agreed underwriting parameters or where authority limits have been breached. The Company assigns underwriting parameters based on a number of factors, including level of experience and skill of the individual. These parameters are in place for all relevant employees and those that fall under a third party delegated authority.	Accepting risks outside of agreed underwriting appetite, regardless of source, can result in unplanned or misunderstood underwriting exposures.	Underwriter authority letters ("UALs") are in place for all underwriters and reviewed at least annually. The underwriting control function maintains records of the UALs. Potential breaches of UALs are monitored periodically and escalated where necessary to senior management. Peer reviews and technical underwriting reviews assess whether or not UALs are adhered to. With respect to parties with delegated underwriting authority, authorities granted by the Company are closely controlled through strict underwriting guidelines, contractual restrictions and obligations. All third parties are vetted prior to appointment and regularly monitored and audited internally.

Estimated concentration of insurance risks measured in insurance revenue in 2023:

Concentration of insurance contract revenue	**2023** **£000**	2022 (restated) £000
Property	**222,349**	216,779
Casualty - professional indemnity	**191,552**	193,736
Casualty - other risks	**130,102**	124,430
Other	**19,160**	20,045
Insurance contract revenue	**563,163**	554,990

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

3 Management of risk *continued*

Principal risks *continued*

c) Reserving risk

The risk that reserves set in the financial statements ('booked reserves') in respect of insurance claims are ultimately insufficient to fully settle these claims and their associated expenses

What is the risk?	Why does it apply?	How is it managed?
Claims reserve risk Unsuitable case reserves (e.g., over- or under-reserving) and/or insufficient technical reserves in place to meet incurred losses and associated expenses, future losses and expenses from earned premiums.	There is the possibility that the financial provisions or reserves held to cover the earned ultimate liabilities are not sufficient for the exposures, which could affect the Company's earnings, capital and possibly even its ability to continue as a going concern.	The provisions made to pay claims reflect the Company's experience and the industry's view of similar business. They are also influenced by loss payments, pending levels of unpaid claims, historic trends in reserving patterns and potential changes in rates arising from market or economic conditions. Provisions are set above the actuarial best estimate to reduce the risk that actual claims may exceed the amount set aside. Provision estimates are subject to controls and review by all areas of the business. The HIC Audit Committee approves the amount of the final provision, on the recommendation of dedicated reserving committees. 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.

3 Management of risk *continued*

Principal risks *continued*

d) *Market risk*

The threat of unfavourable or unexpected movements in the value of HIC's assets and/or the income expected from them, owing to movements in market prices or defaults on income generating assets.

What is the risk?	Why does it apply?	How is it managed?
Investment risk Probability of loss in excess of risk limits and tolerances, as a result of unfavourable or unexpected movements in the value of assets and/or the income expected from them, arising from movements in market prices including equity values, interest rates, credit spreads and foreign exchange rates, as well as losses due to defaults and downgrades, or inability to meet liquidity requirements of the business.	The investment of the Company's assets is intended to generate an investment return, however, there are a number of factors and uncertainties which could influence the result.	HIC investment strategy is managed centrally by the Group Chief Investment Officer. The Company's Chief Financial Officer oversees and challenges investment decisions relating to the Company at the Divisional Investment Group. The Company's objective is to maximise risk-adjusted investment returns in the prevailing financial, economic and market conditions, without creating undue risk to the Company's capacity to underwrite. Funds held for reserves are invested primarily in high-quality bonds and cash. As many insurance and reinsurance liabilities have short timespans, there is no desire to match exactly the duration of assets and liabilities.

The Company's equity and unit trust holdings are well diversified over a number of companies, industries and indices in order to limit sensitivities. The fair value of equity assets in the Company's balance sheet at 31 December 2023 was £30,291 thousands (2022: £47,125 thousands). These are analysed as follows:

% Weighting - Nature of equity and unit trust holdings	2023	2022
Geographic focus		
Specific UK mandate	**100**	62
Global mandate	**-**	38
Units held in funds	**100**	100

A 10% downward movement in equity prices as at 31 December 2023 would have been expected to reduce Company equity and profit after tax for the year by approximately £2,272 thousands (2022: £3,817 thousands), assuming that the only area impacted was equity financial assets. A 10% upward movement is estimated to have an equal but opposite effect.

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 Company cash flows.

3 Management of risk *continued*

Principal risks *continued*

d) Market risk continued

The fair value of the debt and fixed income securities in the Company's balance sheet at 31 December 2023 was £340,078 thousands (2022: £302,737 thousands). These are analysed as follows:

% Weighting - Nature of debt and fixed income holdings	2023	2022
Government issued	**17**	16
Agency and government supported	**17**	5
Corporate bonds	**65**	79
Asset-backed securities	**1**	-
Total	**100**	100

One method of assessing interest rate sensitivity is through the examination of duration-convexity factors in the underlying portfolio. 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 below estimated impact on instruments' fair values for a 100 basis point change in the term structure of market interest rates.

The Company has used a duration-convexity-based sensitivity analysis for the debt and fixed income holdings, and recalculated the discounting impact for the reinsurance contract assets and insurance contract liabilities. If market interest rates had increased or decreased by 100 basis points at the balance sheet date, the Company equity and profit after tax for the year might have been expected to decrease or increase by the following amounts:

31 December 2023	**1% increase/decrease in interest rates**
	Equity/Profit after tax £000
Reinsurance contract assets	**3,490 / (3,720)**
Insurance contract liabilities	**(5,083) / 5,315**
Debt and fixed income holdings	**(5,724) / 5,904**

31 December 2022 (restated)	1% increase/decrease in interest rates
	Equity/Profit after tax £000
Reinsurance contract assets	4,553 / (4,761)
Insurance contract liabilities	(6,471) / 6,760
Debt and fixed income holdings	(5,473) / 5,651

The liability for incurred claims, reinsurance assets for incurred claims and certain reinsurance assets for remaining coverage are subject to discounting. Please refer to note 2.12 for further details regarding the discount rates used.

3 Management of risk *continued*

Principal risks *continued*

e) Liquidity risk

A significant proportion of the Company's investments are in highly liquid assets which could be converted into cash in a prompt fashion and at minimal expense. The deposits with credit institutions largely comprise short-dated certificates for which an active market exists and which the Company can easily access. All of these instruments mature within one year of the balance sheet date. The Company's exposure to equities is also highly concentrated on shares and funds that are frequently 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.

What is the risk?	Why does it apply?	How is it managed?
Liquidity risk Liquidity risk is the inability to meet cash requirements from available resources within appropriate or required timescales. A failure of the Company's liquidity strategy could leave the Company unable to meet cash requirements to pay liabilities to customers or other creditors when they fall due. The Company might also incur high costs in selling assets or raising money quickly in order to meet obligations. Such a failure could have a material adverse effect on the Company's financial condition and cash flows.	In the event of a claims surge or extreme event, the Company may be faced with large, unplanned cash demands. This could be exacerbated by having to fund a large number of claims pending recovery from reinsurers. Although the Company's investment policies stress the conservation of principal and liquidity, investments are still subject to market-wide risks and fluctuations.	The Company's cash requirements can normally be met through regular income streams: premiums, investment income, existing cash balances or by realising investments that have reached maturity. The primary source of inflows is insurance premiums, while outflows are largely expenses and payments to policyholders through claims. Cash flow forecasts are produced for the week, month, quarter, or up to three years ahead, depending on the source. The Board sets limits on the minimum level of cash and maturing funds available to meet cash 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 Company's investments is in highly liquid assets which could be converted to cash in a prompt fashion and at minimal expense. The main focus of the investment portfolio is on high-quality short-duration debt and fixed income securities, and cash.

3 Management of risk *continued*

Principal risks *continued*

e) Liquidity risk continued

The contractual maturity profile of the fair values of these securities as at 31 December was as follows:

Fair values at balance sheet date analysed by contractual maturity	**Less than one year**	**Between one and two years**	**Between two and five years**	**Over five years**	**Total**
2023	**£000**	**£000**	**£000**	**£000**	**£000**
Debt and fixed income securities	78,714	98,122	154,758	8,484	**340,078**
Cash and cash equivalents	82,682	-	-	-	**82,682**
Total	**161,396**	**98,122**	**154,758**	**8,484**	**422,760**

Average contractual maturity analysed by denominational currency of debt and fixed income securities as at 31 December (Years)	**2023**
Pound Sterling	**2.2**

Fair values at balance sheet date analysed by contractual maturity	Less than one year	Between one and two years	Between two and five years	Over five years	Total
2022	£000	£000	£000	£000	£000
Debt and fixed income securities	72,524	40,511	178,487	11,215	302,737
Cash and cash equivalents	39,466	-	-	-	39,466
Total	111,990	40,511	178,487	11,215	342,203

Average contractual maturity analysed by denominational currency of debt and fixed income securities as at 31 December (Years)	2022
Pound Sterling	2.6

3 Management of risk *continued*

Principal risks *continued*

e) Liquidity risk continued

The following is an analysis by business segment of the estimated timing of net cash flows based on the liability for incurred claims held at 31 December. 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 that disclosed below.

Liquidity requirements to settle estimated profile of net undiscounted liability for incurred claims on balance sheet:

31 December 2023	**Within one year**	**Between one and two years**	**Between two and five years**	**Total**
	£000	**£000**	**£000**	**£000**
Household and domestic all risk and commercial property	50,500	12,680	12,257	**75,437**
Commercial lines liability	33,330	23,649	25,283	**82,262**
Other	756	379	320	**1,455**
Total	**84,586**	**36,708**	**37,860**	**159,154**

31 December 2022	Within one year	Between one and two years	Between two and five years	Total (restated)
	£000	£000	£000	£000
Household and domestic all risk and commercial property	43,709	10,974	10,608	65,291
Commercial lines liability	32,680	23,188	24,790	80,658
Other	1,027	516	435	1,978
Total	77,416	34,678	35,833	147,927

f) Foreign exchange risk

What is the risk?	Why does it apply?	How is it managed?
Foreign exchange risk arises from the potential for the economic capital position to deteriorate as a result of unfavourable or unexpected movements in exchange rates (predominantly British Pound to Euro).	The Company enters into insurance, investment and operational contracts with some exposure outside the UK, with obligations denominated in the local currency while reporting in pounds.	HIC has limited exposure to foreign exchange risk, due to its UK focus. To reduce foreign exchange risk, assets and liabilities are usually maintained in the currency of the original premiums for which they were set aside. Management also perform monthly reviews in order to ensure that the assets and liabilities of each currency are appropriate and to maintain a minimum amount of net assets denominated in foreign currencies which are exposed to exchange rate fluctuations.

3 Management of risk *continued*

Principal risks *continued*

f) Foreign exchange risk continued

As at 31 December 2023, the Company used a closing rate of exchange of £1: €1.154 (2022: £1: €1.127) and of £1: $1.275. (2022: £1: $1.203). The average exchange rate used for the year was £1: €1.150 (2022: £1: €1.174) and of £1: $1.243 (2022: £1:$1.238).

The profile of the Company's assets and liabilities, categorised by currency at their translated carrying amount, at 31 December was as follows:

	Sterling	US Dollar	Euro	Other	Total
As at 31 December 2023	**£000**	**£000**	**£000**	**£000**	**£000**
Deferred tax assets	1,129	-	-	-	**1,129**
Financial assets carried at fair value	370,369	-	-	-	**370,369**
Reinsurance contract held assets	339,296	942	(2,966)	-	**337,272**
Trade and other receivables	6,333	-	37	160	**6,530**
Current tax assets	-	-	-	-	**-**
Cash and cash equivalents	82,598	80	4	-	**82,682**
Total Assets	**799,725**	**1,022**	**(2,925)**	**160**	**797,982**

	Sterling	US Dollar	Euro	Other	Total
As at 31 December 2023	**£000**	**£000**	**£000**	**£000**	**£000**
Deferred tax liabilities	-	-	-	-	**-**
Insurance contract liabilities	524,719	1,547	2,236	(1)	**528,501**
Current tax liabilities	7,706	-	250	-	**7,956**
Trade and other payables	48,468	-	924	-	**49,392**
Total Liabilities	**580,893**	**1,547**	**3,410**	**(1)**	**585,849**

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

3 Management of risk *continued*

Principal risks *continued*

f) Foreign exchange risk continued

As at 31 December 2022	Sterling £000	US Dollar £000	Euro £000	Other £000	Total (restated)* £000
Deferred tax assets	1,423	-	-	-	1,423
Financial assets carried at fair value	349,862	-	-	-	349,862
Reinsurance contract held assets	453,353	1,996	(3,020)	-	452,329
Trade and other receivables	6,510	-	(1)	167	6,676
Current tax assets	-	-	1,221	-	1,221
Cash and cash equivalents	39,125	89	252	-	39,466
Total Assets	850,273	2,085	(1,548)	167	850,977

As at 31 December 2022	Sterling £000	US Dollar £000	Euro £000	Other £000	Total (restated)* £000
Deferred tax liabilities	2,744	-	-	-	2,744
Insurance contract liabilities	598,871	1,381	2,763	1	603,016
Current tax liabilities	3,583	-	-	-	3,583
Trade and other payables	48,814	-	710	-	49,524
Total Liabilities	654,012	1,381	3,473	1	658,867

* Restated for the adoption of IFRS 17.

3 Management of risk *continued*

Principal risks *continued*

g) Credit risk

The risk of loss or adverse financial impact due to default by counterparties to which HIC is exposed.

What is the risk?	Why does it apply?	How is it managed?
Counterparty default (reinsurer) This is the risk of reinsurance counterparties (external) defaulting on the terms of the reinsurance contract, for example due to downgrade, financial difficulty or contractual dispute The Company buys reinsurance for protection, but if the reinsurers were unable to meet their obligations it could put a strain on earnings and capital and harm the Company's financial condition and cash flows.	Cover is provided to protect clients against a range of perils and the Company manages exposure through reinsurance. Credit risk arises when recoveries are sought from reinsurers.	Reinsurance is only purchased from companies that are financially strong. A dedicated Reinsurance Credit Committee, a subcommittee of the Group Cash, Capital and Credit Committee, must approve the use of every reinsurer, based on an assessment of their financial strength, trading record, payment history, outlook, organisational structure and external credit ratings. Credit exposures to reinsurers are closely monitored, as are the companies themselves, so potential problems can be quickly identified.
Counterparty default (broker) This is the risk of default of one or more broker counterparties, causing them to renege on the Terms of Business Agreement (for example, not passing premiums to the Company or not passing payment to claimants) or altering the terms of agreement. If this happens, it could result in the Company losing money.	A significant portion of the Company's business is written through brokers. Credit risk is encountered when money is transferred to and from brokers for premiums or claims.	The Company monitors exposure to brokers on an on-going basis and has a continuing dialogue with core brokers to quickly identify and resolve any credit issues that arise. Such monitoring takes into account a number of factors, which can include credit rating, financial position, financial performance, payment history and market factors.
Counterparty default (other) This is the risk of default of a counterparty other than reinsurers and brokers (e.g., banks, investment managers, other custodians), causing them to renege on or altering the terms of agreement. If a counterparty is unable to meet their obligations to HIC, this may result in funds being lost with potential cashflow or liquidity implications for the Company.	We have significant exposure to counterparties such as banks. We face credit risk if they fall into difficulty and are unable to protect HIC's funds.	HIC only interacts with strongly rated counterparties, in line with policies set at Group level. Counterparties have to satisfy multiple criteria to demonstrate they meet creditworthiness requirements. There are limits in place to ensure diversification of HIC's financial counterparties exposure is closely monitored, as are changes in the counterparties credit rating, solvency and financial position. Contracts are also carefully worded to protect HIC and its assets in the event of a counterparty experiencing financial difficulty or default.

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

3 Management of risk *continued*

Principal risks *continued*

g) Credit risk continued

The Company is exposed to broker credit risk through its intercompany relationship with the internal intermediary Hiscox Underwriting Limited (HUL). HIC authorises HUL to cascade risk transfer to duly authorised brokers and other intermediaries by permitting brokers and other intermediaries to act as HIC's agent for the purposes of receiving premiums from insureds, settling refunds and receiving claims monies prior to onwards transmission to HIC. HUL shall remain responsible to HIC for the proper discharge by brokers and other intermediaries of those powers and authorities. The total intercompany receivable due from the intermediary HUL as at 31 December 2023 was £213,404 thousands (2022: £202,348 thousands).

An analysis of the Company's major exposures to counterparty credit risk excluding direct loans and receivables and other debtors, based on Standard and Poor's or equivalent rating is presented below:

As at 31 December 2023	**Note**	**AAA**	**AA**	**A**	**BBB/BB**	**Total**
		£000	£000	£000	£000	£000
Debt and fixed income securities	10	39,328	84,359	110,956	105,435	**340,078**
Reinsurance assets, including reinsurance debtors	16	-	74,450	262,104	718	**337,272**
Cash and cash equivalents	11	79,099	46	2,070	1,467	**82,682**
Total		**118,427**	**158,855**	**375,130**	**107,620**	**760,032**
Amounts attributable to largest single counterparty		79,099	58,008	212,326	4,448	

As at 31 December 2022	Note	AAA	AA	A	BBB/BB	Total (restated)*
		£000	£000	£000	£000	£000
Debt and fixed income securities	10	71,425	13,059	101,886	116,367	302,737
Reinsurance assets, including reinsurance debtors	16	-	131,107	319,958	1,264	452,329
Cash and cash equivalents	11	33,669	-	5,749	48	39,466
Total		105,094	144,166	427,593	117,679	794,532
Amounts attributable to largest single counterparty		33,669	4,607	232,297	3,514	

* Restated for the adoption of IFRS 17.

3 Management of risk *continued*

Principal risks *continued*

g) Credit risk continued

At 31 December 2023, the Company held no material debt and fixed income assets that were past due or impaired beyond their reported fair values, either for the current year under review or on a cumulative basis (2022: £nil). For the current and prior years under review, all of the Company's maturing financial instruments settled on their original contractual terms and payment dates, and the Company therefore experienced no losses of, or delays in recovering, principal amounts invested.

The largest counterparty exposure with AAA rating is with BlackRock Capital Investment Corporation, for AA is HM Treasury, and for A is HIB, the latter is fully collateralised.

h) Operational risk

The risk of direct or indirect loss resulting from internal processes, people or systems, or external events.

What is the risk?	Why does it apply?	How is it managed?
Data security (including cyber security) A failure to implement or maintain the systems and processes necessary to protect the confidentiality, integrity or availability of business sensitive information and/or customer/staff data. Cyber security risk is an element of information security risk and is the threat to HIC posed by the higher maturity of attack tools and methods, the increased exposure and the increased motivation of attackers. As well as causing financial losses, information and cyber security risks can have legal, regulatory and reputational consequences.	The volume of sensitive data and the number of connected devices and applications have increased exponentially, while cyber-attacks are increasingly frequent and sophisticated. The Company depends on the confidentiality, integrity and timely availability of information and data.	The Information Security and Privacy Group, which is chaired by the Group CRO and attended by the Company's Chief Operating Officer (COO) manages the risk in line with the Company risk appetite, supported by experts from around the business. The Group employs a dedicated information security team, who advise on information security design and standards and carry out assurance activities. The Company's defensive capabilities include industry standard monitoring with additional protection for specific, highly confidential information.

3 Management of risk *continued*

Principal risks *continued*

h) Operational risk continued

What is the risk?	Why does it apply?	How is it managed?
Information technology and systems failure A major IT, systems or service failure (e.g., systems are disrupted, unavailable or insecure) could have a significant impact on the business.	Information technology and systems are critical to conducting business and providing continuity of service to clients, including supporting underwriting and claims processes.	Dedicated IT resources are in place to support the Company's technology needs and oversee critical systems and applications. A formal disaster recovery plan is in place and tested regularly to ensure workspace recovery and the retrieval of communications, IT systems and data should a major incident occur.
Project risk and change management This is the risk that projects and/or change initiatives are not delivered to plan, budget or specification, or the risks inherent to the project or the interdependencies across projects are not appropriately managed, or a robust business investment case is not developed to ensure that the project will result in anticipated investment return and benefits to the business within the defined payback period.	The Company operates in an ever-changing environment, with technological advancements, customer behaviour and external expectations evolving rapidly in recent years. To remain relevant, the Company must continue to evolve how business is conducted.	The UK Change Board ensures all major programmes have dedicated project governance structures to oversee the delivery of the programme, including risk management aspects. Programme sponsors also provide updates to the Board and the Risk Committee as appropriate. The UK Head of Change provides portfolio level oversight of risks, issues and resource needs across projects.

3 **Management of risk** *continued*

Principal risks *continued*

i) Regulatory, legal and tax risks

The risk of financial loss, regulatory censure, reputational damage and/or other adverse impact as a result of non-compliance with all relevant regulations and/or legislation in any of the jurisdictions within which Hiscox operates

What is the risk?	Why does it apply?	How is it managed?
Regulatory, legal and tax governance Regulatory risk is the risk of failing to act in accordance with relevant regulatory requirements in all relevant jurisdictions or deterioration in the quality of relationship with one or more regulators. Legal risk is the risk that Hiscox is subject to a significant corporate legal claims that cause financial, reputational or other impact. This risk is focused on litigation relating to business strategy (e.g., climate litigation, shareholder relations, activist investors) as opposed to the operational legal issues that can arise from specific business arrangements (e.g., third party contracts, employment law, reinsurance contracts, financial crime, claims disputes). Tax governance risk is the risk of failing to act in accordance with relevant taxation laws or adapt to changes in taxation.	We operate in a global environment and insurance is a highly regulated financial industry. There may be times when the regulatory, legal or tax landscapes undergo significant change that directly impacts our business. For example, local country tax authorities are evolving their approach and expectations with regards to the transparency and nature of the tax base.	The Company understands that sound, prudent regulation is key to the stability and sustainability of the insurance market and wider financial markets. We continuously monitor new regulation and review our internal processes to facilitate compliance. Our approach is to combine local expertise with a globally consistent framework to manage regulatory, legal and tax change and provide effective compliance with the various and evolving requirements.

3 Management of risk *continued*

Principal risks *continued*

j) Group risk

Group risk is defined as the risks arising from the interconnected nature of the Group and its entities.

What is the risk?	Why does it apply?	How is it managed?
Internal Transactions and Contagion Risk **Internal Transactions** are not captured in regulatory and / or legal requirements, and / or there is inadequate monitoring of intra-Group relationships / transactions, leading to a lack of understanding of the financial impact of such transactions on legal entities. **Contagion Risk** Decision(s) or action(s) taken by HIC or another carrier within the Group compromises the entity in question's going-concern position, strategy or regulatory standing (e.g., failure of carrier or other legal entity).	HIC has a key reinsurance relationship with another Hiscox Group company, HIB. Although there are benefits of being part of a Group of companies, there is potential for reputational or financial risk arising elsewhere in the Group and impacting HIC.	Transactions are conducted on an arm's length basis and the financial strength of HIB is closely monitored. Additionally, collateral is held in trust to provide additional security to HIC. There is strong governance across the Group. HIC participates in many Group level governance forums and also obtains updates on the Group's financial strength and ability to operate on a going concern basis.

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

4 Net investment and insurance finance result

	2023 £000	2022 (restated) £000
Investment result		
Investment income including interest receivable	**13,146**	8,110
Net realised (losses) on financial investments at fair value through profit or loss	**(4,001)**	(5,983)
Net unrealised gains/(losses) on financial investments at fair value through profit or loss	**15,686**	(16,179)
Investment result - financial assets	**24,831**	(14,052)
Net fair value gains on derivative financial instruments	**-**	828
Investment expenses	**(213)**	(366)
Total result	**24,618**	(13,590)
Net finance (expense)/income from insurance contracts		
Interest accreted	**(21,656)**	(5,305)
Effects of changes in interest rates and other financial assumptions	**(3,331)**	21,432
Total net finance (expense)/income from insurance contracts	**(24,987)**	16,127
Net finance income/(expense) from reinsurance contracts		
Interest accreted	**13,434**	3,342
Effects of changes in interest rates and other financial assumptions	**2,252**	(15,393)
Total net finance income/(expense) from reinsurance contracts	**15,686**	(12,051)
Net insurance finance (expense)/income	**(9,301)**	4,076
Net financial result	**15,317**	(9,514)

4 Net investment and insurance finance result *continued*

Analysis of returns on investments

	2023 Return £000	**2023 Yield %**	2022 Return £000	2022 Yield %
Sterling	**24,825**	**5.5**	(14,053)	(3.5)
US Dollar	**6**	**8.7**	2	0.2
Euro	**-**	**-**	(1)	(0.0)
Total	**24,831**	**5.5**	(14,052)	(3.5)

The return on financial investments by asset class for the year was:

	2023 Return £000	**2023 Yield %**	2022 Return £000	2022 Yield %
Debt and fixed income securities	**20,365**	**6.3**	(13,135)	(4.4)
Equities and shares in unit trusts	**1,263**	**0.8**	(1,365)	(2.9)
Deposits with credit institutions/cash and cash equivalents	**3,203**	**4.7**	448	1.1
Total	**24,831**	**5.5**	(14,052)	(3.5)

5 Other income and operational expenses

	2023 £000	2022 £000
Other income	**-**	49
Staff costs	**2,747**	1,894
Depreciation, amortisation and impairment	**47**	66
Other expenses	**12,709**	9,435
Operational expenses	**15,503**	11,395

6 Directors' remuneration

All Executive Directors of the Company are employed by HUGS. The Company has been recharged £2,126 thousands for their services during the year (2022: £1,416 thousands) of which £15 thousands (2022: £nil thousands) was in relation to contributions to the defined contribution pension scheme. This is considered by the Directors a fair reflection of the remuneration received for their services to the Company. The remuneration charge for the highest paid director as recharged to the Company was £929 thousands (2022: £492 thousands) with a £15 thousands contribution to the defined contribution pension scheme (2022: £nil thousands).

The Directors may be members of a defined contribution scheme. Certain Directors are members of a defined benefit scheme that closed to future accrual with effect from 31 December 2006. These details are shown in the table below, along with aggregate gains made on share options and performance share plan awards during the current and prior year. The Directors are the only key management personnel.

	2023 £000	2022 £000
Deferred members of the defined benefit scheme (number)	**-**	-
Pensioner members of the defined benefit scheme (number)	**-**	-
Active members of the defined contribution scheme (number)	**3**	3
Deferred members of the defined contribution scheme (number)	**-**	-
Directors who exercised performance share awards (number)	**-**	1
Aggregate gains made on share options and performance share plan awards (£000)	**-**	18

7 Auditors' remuneration

Fees payable to the Company's external auditors, PwC, its member firms and its associates (exclusive of VAT) include the following amounts recorded in the income statement:

Amounts receivable by the auditors and its associates in respect of:	**2023 £000**	2022 £000
Audit-related assurance services	**228**	202
Non-audit services	**77**	73
Total auditors' remuneration	**305**	275

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

8 Income tax charge

Tax charged to the income statement

	2023 £000	2022 (restated)* £000
Current taxation		
Expense for the year	**14,546**	1,493
Adjustment in respect of prior years	**(524)**	719
Total current taxation	**14,022**	2,212
Deferred taxation		
Expense for the year	**(2,230)**	1,454
Adjustment in respect of prior years	**(251)**	-
Effect of rate change	**31**	327
Total deferred taxation	**(2,450)**	1,781
Tax charge in the income statement	**11,572**	3,993

The difference between the total tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows:

	2023 £000	2022 (restated)* £000
Profit before tax	**46,595**	11,392
Tax calculated at the standard corporation tax rate applicable in the UK of 23.5% (2022: 19%)	**10,949**	2,165
Effects of:		
Prior year tax adjustment	**(775)**	719
Expenses not deductible for tax	**1,367**	782
Change in deferred tax rate	**31**	327
Tax charge for the year	**11,572**	3,993

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. Deferred tax has been recognised at 25% leading to an increase in the deferred tax asset of £31 thousands.

130 countries have agreed to implement a new global minimum tax (GMT) as 'Pillar Two' of the OECD two-Pillar reform framework. The GMT uses adjusted consolidated accounting data to calculate the Effective Tax Rate (ETR) paid on profits by a multinational in each jurisdiction in which it operates; and then applies a 'top-up tax' on any jurisdictions where the ETR is below 15%.

The Company is a subsidiary of the Hiscox Group ('the Group') which expects to be within the scope of these rules, by virtue of the fact that the Group's consolidated revenue in at least two of the four years prior to 2024 exceeded EUR750m. Multiple jurisdictions in which the Group operates have substantively enacted such legislation (Pillar Two legislation) before the balance sheet date. This legislation brings into effect the Income Inclusion Rule (IIR) and Qualified Domestic Minimum Top-Up Tax (QDMTT) from 2024, and the Undertaxed Profits Rule (UTPR) from 2025.

8 Income tax charge *continued*

The UK has substantively enacted the relevant legislation which brings into effect the IIR and QDMTT from 2024, which is not expected to have a material impact on the Group. Based on historic Effective Tax Rate trends, the Company does not expect to be materially impacted by the enactment of QDMTT or IIR legislation. UTPR has not been substantively enacted in the UK at the balance sheet date, however we do not expect enactment to have a material impact on the Company on the basis that the Company does not hold significant tangible assets nor employ staff (which are key factors in allocating any top-up tax payable by the Group).

The impact of these changes in future periods will be dependent on the level of taxable profits in those periods.

Deferred tax	2022 (restated)* £000	Income statement credit £000	**2023 £000**
Deferred tax assets	1,423	(294)	1,129
Deferred tax liabilities	2,744	(2,744)	-
Total net deferred tax (liabilities)/assets	**(1,321)**	**2,450**	**1,129**

Movement in total deferred tax balance sheet headings

	2023 £000	2022 (restated)* £000
At 1 January	**(1,321)**	461
Income statement credit/(charge)	**2,450**	(1,781)
At 31 December	**1,129**	(1,321)

Deferred tax assets analysed by balance sheet headings

At 31 December	**2023 £000**	2022 (restated)* £000
Provisions	**1,129**	1,423
Total deferred tax assets	**1,129**	1,423

Deferred tax liabilities analysed by balance sheet headings

At 31 December	**2023 £000**	2022 (restated)* £000
Provisions	-	2,744
Total deferred tax liabilities	-	2,744

*Restated for the adoption of IFRS 17 and IFRS 9.

9 Trade and other receivables

	2023 **£000**	2022 (restated) £000
Prepayments and accrued income	-	67
Trade and other receivables:		
Accrued interest	**4,064**	3,659
Other debtors including related party amounts	**2,466**	2,950
Total trade and other receivables	**6,530**	6,676

The amounts expected to be recovered before and after one year based on historical experience, are estimated as follows:

	2023 **£000**	2022 (restated) £000
Within one year	**4,352**	3,636
After one year	**2,178**	3,040
Total	**6,530**	6,676

10 Financial assets carried at fair value

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.

	2023 **£000**	2022 £000
Debt and fixed income securities	**340,078**	302,737
Equities and shares in unit trusts	**30,291**	47,125
Total financial assets carried at fair value	**370,369**	349,862

11 Cash and cash equivalents

	2023 **£000**	2022 £000
Cash at hand and in bank	**82,682**	39,466
Total cash and cash equivalents	**82,682**	39,466

The Company's cash and cash equivalents are held with a well-diversified range of banks and financial institutions.

12 Share capital

	2023 Number of shares	2023 £000	2022 Number of shares	2022 £000
Called up, allotted and fully paid shares of £1 each				
Ordinary shares of £1 each	**95,000,000**	**95,000**	95,000,000	95,000

HIC is a wholly owned indirect subsidiary of Hiscox Ltd which is the Bermudian based holding company of the Hiscox Group and which is listed on the London Stock Exchange.

The direct holding company of HIC is Hiscox Insurance Holdings Limited. No consolidated financial statements are prepared for this company. A copy of the consolidated financial statements of Hiscox Ltd may be obtained from the Company Secretary, Hiscox Ltd, Chesney House, 96 Pitts Bay Road, Pembroke HM 08, Bermuda.

13 Trade and other payables

	2023 £000	2022 (restated) £000
Social security and other taxes payable	**37**	15,890
Other creditors	**44,486**	26,766
Accruals and deferred income	**4,869**	6,868
Total	**49,392**	49,524

Amounts expected to be settled before and after one year are presented in the table below:

	2023 £000	2022 (restated) £000
Within one year	**49,392**	49,524
Later than one year	**-**	-
Total	**49,392**	49,524

14 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 2023	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial assets				
Debt and fixed income securities	58,008	282,070	-	**340,078**
Equities and shares in unit trusts	-	30,291	-	**30,291**
Total financial assets	**58,008**	**312,361**	**-**	**370,369**

As at 31 December 2022	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial assets				
Debt and fixed income securities	52,636	250,101	-	302,737
Equities and shares in unit trusts	-	47,125	-	47,125
Total financial assets	52,636	297,226	-	349,862

During the year, there were no transfers made between Level 1 and Level 2 of the fair value hierarchy.

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 observable market 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 Company's financial assets are based on prices provided by investment managers who obtain market data from numerous independent pricing services. The pricing services used by the investment manager obtain actual transaction prices for securities that have quoted prices in active markets. For those securities which are not actively traded, the pricing services use common market valuation pricing models. Observable inputs used in common market valuation pricing models include, but are not limited to, broker quotes, credit ratings, interest rates and yield curves, prepayment speeds, default rates and other such inputs which are available from market sources.

The fair value of shares in unit trusts is based on the net asset value of the fund as reported by independent pricing sources or the fund manager. Included within Level 1 of the fair value hierarchy are certain Government bonds and Treasury bills which are measured based on quoted prices.

14 Fair value measurements *continued*

Level 2 of the hierarchy contains certain Government bonds, Government agencies and corporate securities. The fair value of these assets is based on the prices obtained from both investment managers and investment custodians as discussed above. The Company records the unadjusted price provided and validates the price through a number of methods including a comparison of the prices provided by the investment managers with the investment custodians and valuations provided by external parties to derive fair value. Quoted prices for Government agencies and corporate securities can be based on a limited number of transactions for those securities and as such the Company considers these instruments to have the characteristics of Level 2 instruments. Also included within Level 2, are units held in traditional long funds and long and short special funds and over the counter derivatives, including event linked future contracts.

Level 3 contains investments in unquoted equity securities which have limited observable inputs on which to measure fair value. Unquoted equities are carried at cost, which is deemed to be comparable to fair value. 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 and no further analysis has been performed.

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.

15 Share options and Performance Share Plan awards

Performance Share Plan awards are granted to Directors and other senior employees. Awards normally vest after a three-year period subject to the achievement of performance conditions which can be a mix of financial and non-financial measures. Awards are generally subject to continued employment, however, awards may vest to leavers in certain scenarios. Awards granted under the all-employee share ownership scheme (HSX:26) vest in April 2026 subject to continued employment and satisfactory personal performance between the date of grant and vest.

In accordance with IFRS 2, the Company 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 appropriate expense for the Company's Directors and senior employees is recharged from Hiscox Ltd through to the Company. The expense recognised in the profit or loss statement during the year was £6,090 thousands (2022: £4,289 thousands). This comprises an expense of £3,130 thousands (2022: £1,763 thousands) in respect of Performance Share Plan awards and an expense of £872 thousands (2022: expense of £791 thousands) in respect of share option awards and £2,088 thousands (2022: £1,735 thousands) in respect of employee share awards. Hiscox Ltd has applied the principles outlined in the Black-Scholes option pricing model when determining the fair value of each share option instrument. For the fair value pricing of performance share plans, the Group uses the share price on the date of grant of the options. For any options contingent on achieving targets linked to total shareholder returns, the fair value price on date of grant is adjusted to take account of the probability of achieving the performance targets.

The range of principal assumptions applied by the Hiscox Ltd in determining the fair value of share-based payment instruments granted during the year under review are:

Assumptions affecting inputs to fair value models	**2023**	2022
Annual risk-free rates of return and discount rates (%)	**3.35-4.78**	1.36-3.00
Long-term dividend yield (%)	**1.40**	1.27
Expected life of options (years)	**3.25**	3.25
Implied volatility of share price (%)	**38.7**	49.2
Weighted average share price (p)	**1117.4**	981.1

The weighted average fair value of each share option granted during the year was 392.1p (2022: 418.3p). The weighted average fair value of each Performance Share Plan award granted during the year was 1140.1p (2022: 983.0p).

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

15 Share options and Performance Share Plan awards *continued*

The interests of employees under the Performance Share Plan of Hiscox Ltd are as follows:

Date from which exercisable	1 January 2023	Number of awards granted	Number of options lapsed	Number of awards exercised	31 December 2023	Market price at exercise £
Total	2,726,855	640,986	(557,792)	(124,437)	2,685,612	9.79 - 11.93

The interests of employees under the Sharesave Scheme of Hiscox Ltd are as follows:

Date from which exercisable	1 January 2023	Number of awards granted	Number of options lapsed	Number of awards exercised	31 December 2023	Option price £	Market price at exercise £
Total	801,645	286,944	(90,860)	(348,443)	649,286	6.54 - 13.31	9.38 - 11.74

The Performance Share Plan awards have seven years in which to be exercised once vested. The Sharesave schemes have an expiry date six months after the date from which exercisable.

The total number of options and Performance Share Plan awards outstanding, charged to the Company, is 2,685,612 (2022: 2,726,855) of which 241,077 are exercisable (2022: 348,510). The total number of SAYE options outstanding is 649,286 (2022: 801,645).

The implied volatility assumption is based on historical data for periods of between five and ten years immediately preceding grant date.

16 *Insurance liabilities and reinsurance contract held assets*

	2023 £000	2022 £000
Insurance contract liabilities	**528,501**	603,016
Reinsurance contract held assets	**(337,272)**	(452,329)
Net insurance contract liabilities	**191,229**	150,687

Detailed reconciliations of changes in insurance contract balances during the year are included below in note 16.1.

The net insurance contract liabilities are net of expected recoveries from salvage and subrogation. The amounts for salvage and subrogation at the end of 2023 and 2022 are not material.

16 Insurance liabilities and reinsurance contract held assets *continued*

16.1 (a) Net insurance contract liabilities

Net insurance contracts - Analysis by remaining coverage and incurred claims

	Net liabilities for remaining coverage		Net liabilities for incurred claims		Year to 31 December 2023
	Excluding loss component	Loss component	Estimates of present value of future cash flows	Risk adjustment for non-financial risk	Total
	£000	£000	£000	£000	£000
Opening assets	(35,656)	-	(383,853)	(32,820)	(452,329)
Opening liabilities	50,594	-	510,552	41,870	603,016
Net opening balance	**14,938**	**-**	**126,699**	**9,050**	**150,687**
Changes in the income statement					
Insurance revenue, net of allocation of reinsurance premiums held assets	(375,734)	-	-	-	(375,734)
Insurance service expenses, net of amounts recoverable from reinsurers					
Incurred claims and other attributable expenses	-	-	217,959	2,575	220,534
Acquisition costs	147,677	-	-	-	147,677
Adjustments to liabilities for incurred claims relating to past service	-	-	(35,857)	(3,179)	(39,036)
Losses and reversals of losses on onerous contracts	-	-	-	-	-
Effect of changes in non-performance risk of reinsurers	-	-	(236)	-	(236)
Total net insurance service expenses	**147,677**	**-**	**181,866**	**(604)**	**328,939**
Insurance service result	**(228,057)**	**-**	**181,866**	**(604)**	**(46,795)**
Net finance (income)/expenses from insurance contracts	(31)	-	9,332	-	9,301
Net foreign exchange losses	215	-	(387)	-	(172)
Total change recognised in comprehensive income	**(227,873)**	**-**	**190,811**	**(604)**	**(37,666)**
Investment components	-	-	-	-	-
Transfer to other items in balance sheet	(30,922)	-	(114,600)	-	(145,522)
Net cash flows					
Net premium received	404,405	-	-	-	404,405
Net claims and other insurance service expenses paid	-	-	(63,281)	-	(63,281)
Insurance acquisition cash flows	(117,394)	-	-	-	(117,394)
Total cash flows	**287,011**	**-**	**(63,281)**	**-**	**223,730**
Closing assets	(12,504)	-	(282,801)	(41,967)	(337,272)
Closing liabilities	55,657	-	422,431	50,413	528,501
Net closing balance	**43,153**	**-**	**139,630**	**8,446**	**191,229**

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

16 Insurance liabilities and reinsurance contract held assets *continued*

16.1 (a) Net insurance contract liabilities *continued*

Net insurance contracts - Analysis by remaining coverage and incurred claims

	Year to 31 December 2022				
	Net liabilities for remaining coverage		Net liabilities for incurred claims		
	Excluding loss component	Loss component	Estimates of present value of future cash flows	Risk adjustment for non-financial risk	Total
	£000	£000	£000	£000	£000
Opening assets	(25,171)	(50)	(471,330)	(80,491)	(577,042)
Opening liabilities	63,412	97	587,249	96,544	747,302
Net opening balance	**38,241**	**47**	**115,919**	**16,053**	**170,260**
Changes in the income statement					
Insurance revenue, net of allocation of reinsurance premiums held assets	(370,908)	-	-	-	(370,908)
Insurance service expenses, net of amounts recoverable from reinsurers					
Incurred claims and other attributable expenses	-	(172)	195,897	3,096	198,821
Acquisition costs	138,632	-	-	-	138,632
Adjustments to liabilities for incurred claims relating to past service	-	-	10,579	(10,099)	480
Losses and reversals of losses on onerous contracts	-	209	-	-	209
Effect of changes in non-performance risk of reinsurers	-	(84)	-	-	(84)
Total net insurance service expenses	**138,632**	**(47)**	**206,476**	**(7,003)**	**338,058**
Insurance service result	**(232,276)**	**(47)**	**206,476**	**(7,003)**	**(32,850)**
Net finance (income)/expenses from insurance contracts	-	-	(4,076)	-	(4,076)
Net foreign exchange losses	(394)	-	678	-	284
Total change recognised in comprehensive income	**(232,670)**	**(47)**	**203,078**	**(7,003)**	**(36,642)**
Investment components	-	-	-	-	-
Transfer to other items in balance sheet	(28,526)	-	(121,674)	-	(149,930)
Net cash flows					
Net premium received	348,041	-	-	-	348,041
Net claims and other insurance service expenses paid	-	-	(70,623)	-	(70,623)
Insurance acquisition cash flows	(110,418)	-	-	-	(110,418)
Total cash flows	**237,623**	**-**	**(70,623)**	**-**	**167,000**
Closing assets	(35,656)	-	(383,853)	(32,820)	(452,329)
Closing liabilities	50,594	-	510,552	41,870	603,016
Net closing balance	**14,938**	**-**	**126,699**	**9,050**	**150,687**

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

16 Insurance liabilities and reinsurance contract held assets *continued*

16.1 (b) Insurance contract liabilities

Insurance contracts - Analysis by remaining coverage and incurred claims

	Year ended 31 December 2023				
	Liability for remaining coverage		Liabilities for incurred claims		
	LRC excluding loss component	Loss component	Estimates of present value of future cash flows	Risk adjustment for non-financial risk	Total
	£000	£000	£000	£000	£000
Opening assets	-	-	-	-	-
Opening liabilities	50,594	-	510,552	41,870	603,016
Net opening balance	**50,594**	**-**	**510,552**	**41,870**	**603,016**
Changes in the income statement					
Insurance revenue	(563,163)	-	-	-	(563,163)
Total Insurance revenue	**(563,163)**	**-**	**-**	**-**	**(563,163)**
Insurance service expenses					
Incurred claims and other insurance service expenses	-	-	332,446	9,950	342,396
Amortisation of insurance acquisition cash flows	147,677	-	-	-	147,677
Adjustments for liabilities for incurred claims relating to past service	-	-	(118,169)	(1,407)	(119,576)
Losses and reversals of losses on onerous contracts	-	-	-	-	-
Total net insurance service expenses	**147,677**	**-**	**214,277**	**8,543**	**370,497**
Insurance service result	**(415,486)**	**-**	**214,277**	**8,543**	**(192,666)**
Net finance income/(expenses) from insurance contracts	-	-	24,987	-	24,987
Foreign exchange movements	(45)	-	(156)	-	(201)
Total change in the income statement	**(415,531)**	**-**	**239,108**	**8,543**	**(167,880)**
Investment components					
Transfer to other items in balance sheet	(30,922)	-	(114,600)	-	(145,522)
Cash flows					
Premium received	568,911	-	-	-	568,911
Claims and other insurance service expenses paid	-	-	(212,630)	-	(212,630)
Insurance acquisition cash flows	(117,394)	-	-	-	(117,394)
Total cash flows	**451,517**	**-**	**(212,630)**	**-**	**238,887**
Closing assets	-	-	-	-	-
Closing liabilities	55,657	-	422,431	50,413	528,501
Net closing liabilities	**55,657**	**-**	**422,431**	**50,413**	**528,501**

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

16 Insurance liabilities and reinsurance contract held assets *continued*

16.1 (b) Insurance contract liabilities *continued*

Insurance contracts - Analysis by remaining coverage and incurred claims

	Year ended 31 December 2022				
	Liability for remaining coverage		Liabilities for incurred claims		
	LRC excluding loss component	Loss component	Estimates of present value of future cash flows	Risk adjustment for non-financial risk	Total
	£000	£000	£000	£000	£000
Opening assets	-	-	-	-	-
Opening liabilities	63,412	97	587,249	96,544	747,302
Net opening balance	**63,412**	**97**	**587,249**	**96,544**	**747,302**
Changes in the income statement					
Insurance revenue	(554,990)	-	-	-	(554,990)
Total Insurance revenue	**(554,990)**	**-**	**-**	**-**	**(554,990)**
Insurance service expenses					
Incurred claims and other insurance service expenses	-	(306)	350,723	8,121	358,538
Amortisation of insurance acquisition cash flows	138,632	-	-	-	138,632
Adjustments for liabilities for incurred claims relating to past service	-	-	(42,020)	(62,795)	(104,815)
Losses and reversals of losses on onerous contracts	-	209	-	-	209
Total net insurance service expenses	**138,632**	**(97)**	**308,703**	**(54,674)**	**392,564**
Insurance service result	**(416,358)**	**(97)**	**308,703**	**(54,674)**	**(162,426)**
Net finance income/(expenses) from insurance contracts	-	-	(16,127)	-	(16,127)
Foreign exchange movements	(36)	-	356	-	320
Total change in the income statement	**(416,394)**	**(97)**	**292,932**	**(54,674)**	**(178,233)**
Investment components					
Transfer to other items in balance sheet	(28,256)	-	(121,674)	-	(149,930)
Cash flows					
Premium received	542,250	-	-	-	542,250
Claims and other insurance service expenses paid	-	-	(247,955)	-	(247,955)
Insurance acquisition cash flows	(110,418)	-	-	-	(110,418)
Total cash flows	**431,832**	**-**	**(247,955)**	**-**	**183,877**
Closing assets	-	-	-	-	-
Closing liabilities	50,594	-	510,552	41,870	603,016
Net closing liabilities	**50,594**	**-**	**510,552**	**41,870**	**603,016**

16 Insurance liabilities and reinsurance contract held assets *continued*

16.1 (c) Reinsurance contracts - Analysis by remaining coverage and incurred claims

	Year ended 31 December 2023				
	Asset for remaining coverage		Assets for incurred claims		
	ARC excluding loss recovery component	Loss recovery component	Estimates of present value of future cash flows	Risk adjustment for non-financial risk	Total
	£000	£000	£000	£000	£000
Opening assets	35,656	-	383,853	32,820	452,329
Opening liabilities	-	-	-	-	-
Net opening balance	**35,656**	**-**	**383,853**	**32,820**	**452,329**
Changes in the income statement					
Allocation of reinsurance premiums	(187,429)	-	-	-	(187,429)
Amounts recoverable from reinsurers					
Recoveries of incurred claims and other insurance service expenses	-	-	114,487	7,375	121,862
Adjustments to assets for incurred claims relating to past service	-	-	(82,312)	1,772	(80,540)
Effect of changes in non-performance risk of reinsurers	-	-	236	-	236
Total amounts recoverable from reinsurers	**-**	**-**	**32,411**	**9,147**	**41,558**
Net expense from reinsurance contracts held	**(187,429)**	**-**	**32,411**	**9,147**	**(145,871)**
Net income/(expenses) from reinsurance contracts					
Net finance income from reinsurance contracts	31	-	15,655	-	15,686
Foreign exchange movements	(260)	-	231	-	(29)
Total changes in the income statement	**(187,658)**	**-**	**48,297**	**9,147**	**(130,214)**
Investment components					
Cash flows					
Premium paid	164,506	-	-	-	164,506
Amounts received	-	-	(149,349)	-	(149,349)
Total cash flows	**164,506**	**-**	**(149,349)**	**-**	**15,157**
Closing assets	12,504	-	282,801	41,967	337,272
Closing liabilities	-	-	-	-	-
Net closing balance	**12,504**	**-**	**282,801**	**41,967**	**337,272**

16 *Insurance liabilities and reinsurance contract held assets* *continued*

16.1 (c) Reinsurance contracts - Analysis by remaining coverage and incurred claims *continued*

	Year ended 31 December 2022				
	Asset for remaining coverage		Assets for incurred claims		
	ARC excluding loss recovery component	Loss recovery component	Estimates of present value of future cash flows	Risk adjustment for non-financial risk	Total
	£000	£000	£000	£000	£000
Opening assets	25,171	50	471,330	80,491	577,042
Opening liabilities	-	-	-	-	-
Net opening balance	**25,171**	**50**	**471,330**	**80,491**	**577,042**
Changes in the income statement					
Allocation of reinsurance premiums	(184,082)	-	-	-	(184,082)
Amounts recoverable from reinsurers					
Recoveries of incurred claims and other insurance service expenses	-	(134)	154,826	5,025	159,717
Adjustments to assets for incurred claims relating to past service	-	-	(52,599)	(52,696)	(105,295)
Effect of changes in non-performance risk of reinsurers	-	84	-	-	84
Total amounts recoverable from reinsurers	**-**	**(50)**	**102,227**	**(47,671)**	**54,506**
Net expense from reinsurance contracts held	**(184,082)**	**(50)**	**102,227**	**(47,671)**	**(129,576)**
Net income/(expenses) from reinsurance contracts					
Net finance income from reinsurance contracts	-	-	(12,051)	-	(12,051)
Foreign exchange movements	358	-	(322)	-	36
Total changes in the income statement	**(183,724)**	**(50)**	**89,854**	**(47,671)**	**(141,591)**
Investment components					
Cash flows					
Premium paid	194,209	-	-	-	194,209
Amounts received	-	-	(177,331)	-	(177,331)
Total cash flows	**194,209**	**-**	**(177,331)**	**-**	**16,878**
Closing assets					
Closing liabilities	35,656	-	383,853	32,820	452,329
Net closing balance	**35,656**	**-**	**383,853**	**32,820**	**452,329**

16 Insurance liabilities and reinsurance contract held assets *continued*

16.2 (a) Uncertainty associated with insurance contract liabilities

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. The most significant drivers of this uncertainty are highlighted below:

Inflation

Inflation and broader macroeconomic uncertainty remains an elevated risk that HIC is managing. The impacts of inflation are being managed through rate increases and close monitoring of claims experience and reserves. The claims reserves include an explicit provision for changing inflation, and further movements in the expected rate of inflation have been modelled through stress and scenario testing to understand the potential impacts of prolonged high inflation in excess of expectations and an inflation spike scenario.

Climate Change

Climate change risk poses an evolving, persistent and long-term risk which needs to be reflected appropriately in underwriting and reinsurance strategy. The short term impacts for HIC relate to physical risk, particularly exposure to weather events. HIC has seen increases in claims related to both hot and dry summers (more subsidence notifications) and also cold or stormy winters in recent years.

Initial Expected Loss Ratio selection

Initial Expected Loss Ratios (IELRs) for each class of business have been selected by analysing historical performance and expected changes in premium rates. The nature of the IELR estimates, which incorporate a large degree of expert judgement, means that there is a degree of uncertainty surrounding their values, particularly where significant changes have been made to the underwriting. The IELR is a key driver of HIC's technical provision estimates for the most recent underwriting years.

Growing accounts

Classes which are increasing in size can be subject to increased uncertainty. If growth is driven by a change in the mix of risks written (e.g., different types of risks, new territories, increasing exposure, relaxing terms and conditions) this can increase the uncertainty considerably for a class of business.

16 Insurance liabilities and reinsurance contract held assets *continued*

16.2 (a) Uncertainty associated with Insurance contract liabilities *continued*

New classes of business

There are a number of classes of business written within HIC for which there is a limited amount of historical data on which to base the analysis. For these classes, a blend of Hiscox's limited internal data is used together with external benchmark patterns. There is therefore additional uncertainty surrounding the ultimate outcome for these classes of business.

Long-tailed classes of business

Longer-tailed classes are subject to uncertainty arising from a number of different factors; for example, changes in litigation such as judicial reforms. In addition, reporting and settlement delays can mean it may take many years before we can be certain of a final outcome, with any significant changes in results possibly having a material impact on assumptions made on the more recent years of account. Weakening terms and conditions also add additional uncertainty.

Unearned exposure

The technical provisions include allowance for unearned exposures, including provision for any business that is expected to be loss making. While HIC has no onerous contracts at this time, there remains a greater degree of uncertainty attached to the unearned exposure, and so the estimates for this business will be subject to additional uncertainty.

16.2 (b) Description of bases, methods and main assumptions used

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 Company relies on actuarial analysis to estimate the settlement cost of future claims. Through a formal governance 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 environment. The claim reserves are estimated on a best estimate basis, taking into account current market conditions and the nature of risks being underwritten.

Ultimate premium and claim estimates, gross of reinsurance, are calculated using at least the following actuarial projection techniques:

- Chain ladder method;
- Expected loss ratio (ELR) or IELR method; and
- Bornhuetter-Ferguson (BF) method.

The projection method selected for a particular class of business depends on various factors, including the characteristics of the class and the length of the claims development.

16 Insurance liabilities and reinsurance contract held assets *continued*

16.2 (b) Description of bases, methods and main assumptions used *continued*

Assumptions and parameters are set by members of the Reserving team with the relevant knowledge and understanding, and with adequate experience. Assumptions are set consistently across the Hiscox Group and where this is not possible, the differences are understood. Where sufficient, quality data is not available, benchmark information is overlaid with expert judgement to determine suitable assumptions. The input of expert judgement allows for specific knowledge and experience to be utilised.

All assumptions and parameters are subject to regular review to ensure that they are appropriate for their intended purpose. Sensitivity testing of key assumptions is carried out to identify key areas of uncertainty.

Validation of the different assumptions is carried out at the reserving class level i.e., groupings of insurance contracts with homogenised terms and conditions that may have a material effect on the amount, timing and uncertainty of the insurer's future cash flows. The frequency of the validation takes account of the materiality of the assumption. Many assumptions are validated quarterly, while other assumptions are validated annually with quarterly monitoring.

The key assumptions are listed below along with some of the key measures considered when setting them:

- IELR - selected IELRs are determined using historical experience, rate change indices and benchmark information;
- Premium and claims development patterns;
- Tail development;
- Events Not In Data (ENID) allowance;
- Reinsurance recovery rates - details of reinsurance programme, historical recoveries; and
- Reinsurance payment lags - discussions with the Reinsurance team and based on historical claims experience.

Under certain insurance contracts, the Company may be permitted to sell property acquired in settling a claim (for example, salvage). The Company may also have the right to pursue third parties for payment of some or all costs (for example, subrogation). If it is certain a recovery or reimbursement will be made at the valuation date, specific estimates of these salvage and/or subrogation amounts are included as allowances in the measurement of the insurance liability for unpaid claims. This is then recognised in insurance and reinsurance receivables when the liability is settled.

Estimates of where claim liabilities will ultimately settle are adjusted each reporting period to reflect emerging claims experience. Changes in expected claims may result in a reduction or an increase in the ultimate claim costs and a release or an increase in reserves in the period in which the change occurs.

Booked reserves are held with a risk adjustment above the above best estimate to reflect management's view of compensation for risk for the uncertainty in the reserves. The risk adjustment is released in line with the reduction in risk as the best estimates mature and becomes more certain. The risk adjustment included in the net insurance liabilities at 31 December 2023 was 6.7% above the best estimate (2022: 7.9%). At 31 December 2023, the risk adjustment in respect of the LIC net of reinsurance is at the 70.5th percentile (31 December 2022: 71.9th percentile). At 31 December 2023, the risk adjustment in respect of the LIC net of reinsurance is at the 70.5th percentile (31 December 2022: 71.9th percentile)

The development of insurance liabilities provides a measure of the Company's ability to estimate the ultimate value of claims. The Company analyses actual claims development compared with previous estimates on an accident year basis. The top half of each table, on the following pages, illustrates how estimates of ultimate claim costs for each accident year have changed at successive year ends. The bottom half reconciles cumulative claim costs to the amounts still recognised as liabilities.

16 Insurance liabilities and reinsurance contract held assets *continued*

16.3 Claims development tables

(a) Insurance claims and claim adjustment expenses reserves - net of reinsurance

The development of insurance liabilities provides a measure of the Company's ability to estimate the ultimate cost of claims. The Company analyses actual claims development compared with previous estimates on an accident year basis.

Accident year	2019 £000	2020 £000	2021 £000	2022 £000	2023 £000	**Total £000**
Estimate of ultimate claims costs as adjusted for foreign exchange*						
at end of accident year:	133,935	165,843	113,487	122,310	113,556	**649,131**
one period later	129,089	167,836	113,708	102,605		**513,238**
two periods later	118,281	140,163	102,839			**361,283**
three periods later	120,719	117,435				**238,154**
four periods later	121,426					**121,426**
Current estimate of cumulative claims	121,426	117,435	102,839	102,605	113,556	**557,861**
Cumulative payments to date	(112,894)	(106,356)	(92,181)	(62,012)	(41,407)	**(414,850)**
Net cumulative liability for incurred claims - accident years from 2019-2023	8,532	11,079	10,658	40,594	72,148	**143,011**
Net cumulative liability for incurred claims in respect of accident years before 2019						**16,143**
Effect of discounting						**(11,078)**
Total Company liability to incurred claims included in balance sheet - net						**148,076**

* The foreign exchange adjustment arises from the retranslation of the estimates at each date using the exchange rate ruling at 31 December 2023.

16 Insurance liabilities and reinsurance contract held assets *continued*

16.3 Claims development tables *continued*

(b) Insurance claims and claim adjustment expenses reserves - gross

Accident year	2019 £000	2020 £000	2021 £000	2022 £000	2023 £000	**Total £000**
Estimate of ultimate claims costs as adjusted for foreign exchange*						
at end of accident year:	255,610	586,928	270,171	247,231	259,149	**1,619,089**
one period later	241,375	629,698	277,897	211,256		**1,360,226**
two periods later	227,005	527,011	235,618			**989,634**
three periods later	234,686	508,737				**743,423**
four periods later	225,095					**225,095**
Current estimate of cumulative claims	225,095	508,737	235,618	211,256	259,149	**1,439,855**
Cumulative payments to date	(190,989)	(437,909)	(166,830)	(95,963)	(63,264)	**(954,955)**
Gross cumulative liability for incurred claims - accident years from 2019-2023	34,106	70,828	68,788	115,293	195,885	**484,900**
Gross cumulative liability for incurred claims in respect of accident years before 2019						**23,732**
Effect of discounting						**(35,788)**
Total Company liability to internal claims included in balance sheet - gross						**472,844**

* The foreign exchange adjustment arises from the retranslation of the estimates at each date using the exchange rate ruling at 31 December 2023.

17 Dividends

The aggregated amounts of dividends comprise:

	2023 £000	2022 £000
Interim dividend paid in respect of current year	**15,000**	20,000
Final dividend paid in respect of previous year	-	-

The Board declared a £15,000 thousands interim dividend for the year ending 31 December 2023 (2022: £20,000). No final dividend has been declared in 2023 (2022: £nil).

18 Contingencies and guarantees

The Company, like most other insurers, may from time to time be involved in legal proceedings, claims and litigation in the normal course of business. The Company does not believe that such actions will have a material effect on its profit or loss and financial condition.

As required by the Prudential Regulation Authority (PRA) the Company must maintain minimum solvency requirements. The Company complied with these requirements during the year.

19 Related party transactions

HUL is an FCA-authorised non-life insurance intermediary and Lloyd's service company, wholly owned by the Hiscox Group. It deals directly with both consumers and insurance brokers as an insurance agent. It currently places business with, and provides premium collection services to, Hiscox carriers, including HIC, as well as to non-Hiscox carriers. It is not obliged to place business with any particular carrier and these arrangements are subject to review from time to time by HUL. Any business placed with HIC is on an arm's length basis.

HIB is a Class 4 insurer in Bermuda. HIB supplies certain risk modelling services to HIC. HIC purchases reinsurance from HIB; such reinsurances are on an arm's length basis.

HUGS is an employment service company which employs all UK Hiscox Group staff including underwriters, claims and reinsurance staff. It charges Hiscox Insurance Company Limited management fees for the use of its services.

The Hiscox Group also includes a number of intermediate holding companies and inactive companies.

The following balance sheet amounts were outstanding at year end with related parties:

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

19 Related party transactions *continued*

Balance sheet assets and (liabilities) outstanding relating to related Group companies	2023 £000	2022 (restated) £000
Assets:		
Amounts relating to Group Companies	**212,796**	232,332
Total assets	**212,796**	232,332
Liabilities:		
Amounts relating to Group Companies	**168,510**	(169,250)
Total liabilities	**168,510**	(169,250)

Net income and (expenses) reflected in the profit and loss relating to related Group companies	2023 £000	2022 (restated) £000
Net expense relating to Group Companies	**(332,706)**	(347,796)
Total	**(332,706)**	(347,796)

(i) Reinsurance transactions

During the year, the Company entered into a number of reinsurance arrangements with Companies related by virtue of common ownership. Balance Sheet assets with related Companies above, includes Total outstanding reinsurance assets and liabilities attributable to related parties as a result of these arrangements were as follows:

	2023 £000	2022 (restated) £000
Reinsurance assets	**212,326**	232,297
Reinsurance liabilities	**-**	-

(ii) Services provided by related parties

During the year, HUGS charged Hiscox Insurance Company Limited management fees totalling £99,618 thousands (2022: £99,828 thousands) for the use of HUG's services.

20 Parent undertakings

The Company's ultimate parent undertaking and controlling entity is Hiscox Ltd, which is incorporated in Bermuda. This is the largest and smallest group of undertakings into which the Company's financial statements are consolidated. The immediate parent undertaking is Hiscox Insurance Holdings Limited which is incorporated in the United Kingdom.

The consolidated financial statements for Hiscox Ltd are available from the company's registered office at Chesney House, 96 Pitts Bay Road, Pembroke HM 08, Bermuda.