Registration number: 4137419

HISCOX UNDERWRITING GROUP SERVICES LIMITED

Annual Report and Financial Statements

for the Year Ended 31 December 2018

HISCOX UNDERWRITING GROUP SERVICES LIMITED

Contents

HISCOX UNDERWRITING GROUP SERVICES LIMITED

Company Information

Directors	Bronislaw Edmund Masojada (Chief Executive Officer) Hamayou Akbar Hussain (Group Chief Financial Officer) Richard Colin Watson (Group Chief Underwriting Officer) Amanda Victoria Brown (Group Human Resources Director)
Company secretary	David Joseph Gormley (resigned 23 March 2018) Bethany Francesca Emma Hunt (appointed on 23 March 2018) Keith Michael Hubber (appointed on 21 December 2018)
Registered office	1 Great St Helen's London EC3A 6HX
Registered number	4137419
Tax advisors	KPMG LLP 15 Canada Square Canary Wharf London E14 5GL
Bankers	Lloyds TSB Bank Plc 113-116 Leadenhall Street London EC3A 4AX
Independent Auditors	PricewaterhouseCoopers LLP 7 More London Riverside London SE1 2RT

HISCOX UNDERWRITING GROUP SERVICES LIMITED

Strategic Report for the Year Ended 31 December 2018

The Directors present their Strategic Report for the year ended 31 December 2018.

Principal activities
The principal activity of the Company is to act as the service company for the UK subsidiaries of Hiscox Ltd. The Company incurs all significant administration costs, and pays all suppliers on behalf of the UK subsidiaries of Hiscox Ltd and has a policy for charging these costs to the rest of the Group as a management charge which is recognised as turnover.

The Company contributes towards the funding of the Hiscox Group's defined benefit pension scheme. Contributions are levied on the Company, as the employer, by the scheme's sponsor, Hiscox plc. In turn, the Company charges this cost onto the relevant participating entities within the Hiscox Group as a management charge.

The costs incurred by the Company on behalf of the Group are managed by the individual business units as reported in the Annual Report & Accounts of Hiscox Ltd.

Business review and key performance indicators
The Company generated a loss before tax for the year of £7,383,000 (2017: loss before tax of £9,432,000) and a total comprehensive income of £7,359,000 (2017: income of £4,110,000). The key elements are as follows:

- Revenue received from management fees increased to £307,182,000 (2017: £256,297,000)
- Administration expenses increased to £319,000,000 (2017: £267,512,000)
- Remeasurement of net defined benefit liability resulted in income of £18,245,000 (2017: income of £10,403,000)

Total equity was £50,176,000 at 31 December 2018 (2017: £39,601,000).

The directors consider the profit or loss before tax, to be the key performance indicator of the Company. As the principal business of the Company is that of a service company, there are no other specific key performance indicators to report.

Employee policies
The Hiscox Group wants to employ the best people and provide them with the means and the motivation to excel. The Group believes that this will be achieved through fair rewards and by providing staff with an environment in which they can enjoy their work and reach their full potential.

The Hiscox Group recognises how important it is for employees to maintain a healthy work-life balance and give staff the option of flexible and home working wherever possible.

Inclusion
The Hiscox Group is committed to providing equal opportunities to all employees and potential employees in all aspects of employment regardless of disability, sex, race, sexual inclination or background.

Rewards and benefit
The Hiscox Group encourages employees to identify with the success of the Group through performance-related pay and bonus schemes, savings-related share option schemes and executive share option schemes. Competitive benefits packages contain health, fitness, flexible working and career break opportunities. Salary packages are benchmarked against the financial services industry as a whole and against the Lloyd's market specifically.

Training and development
The Hiscox Group is committed to training and developing its employees to help them to maximise their potential. Each permanent member of staff is provided with a tailored personal development programme. Training and development needs are reviewed twice a year, along with performance, against clearly set objectives.

Communications and participation
Employees are kept informed of business developments through formal briefings, team meetings, intranet bulletins, video conferences and informal routes. Management takes these opportunities to listen to staff and involve them in taking the business forward. Regular reports from senior management are published on the Group's intranet, enabling all employees to understand what is occurring in the various business units.

Culture
The Company's culture is embedded in that of the overall Hiscox Group. The Hiscox Group culture is underpinned by a set of core values that determine the standard of behaviour expected of employees. These core values guide everything that the Hiscox Group does in its business. By conducting its business with these core values in mind, the Group recognises that it is more likely to achieve business success and create value for its shareholders. The Hiscox Group strives for the highest standards of corporate governance while being in essence a non-bureaucratic organisation. An effective and firm system of internal controls ensures that risks are managed within acceptable limits, but not at the expense of innovation or speed of response. The Group believes that it has got this balance right and that it is one of its greatest strengths.

The Group's policies ensure that it continues to follow a best practice approach to managing its people and remains a fair and professional employer. In the unlikely event of an employee having a material concern relating to the operations of the business, a whistleblowing policy explains to staff how they can confidentially raise their misgivings. All Hiscox staff can also access free, confidential advice from the whistleblowing charity Public Concern at Work.

Principal risks and uncertainties
The Company is a service company within the Hiscox Group, therefore the Company's primary source of revenue comprises management fee income received from within the Group. The Company's principal risks and uncertainties are integrated within and managed together with the principal risks of the Group.

The Company's balance sheet includes significant amounts receivable from Group companies. The recoverability of these balances is dependent on the continued solvency of these companies. The principal risks relating to each of these companies are outlined in their respective 31 December 2018 financial statements.

The main risks to which the Company is exposed are credit risk, liquidity risk and currency risk.

Information on the Company's efforts to manage the general risks disclosed above is presented in note 3 to the financial statements.

Future developments
The Company will continue to act as the as the service company for the UK subsidiaries of Hiscox Ltd.

On behalf of the Board on 27 September 2019

K M Hubber
Company Secretary

HISCOX UNDERWRITING GROUP SERVICES LIMITED

Directors' Report for the Year Ended 31 December 2018

The directors present their annual report and the audited financial statements for the year ended 31 December 2018.

The Company is a wholly owned subsidiary of Hiscox Ltd, a public company incorporated and domiciled in Bermuda whose ordinary share capital is listed on the London Stock Exchange. Hiscox Ltd is the Company's ultimate parent company. Copies of its consolidated financial statements are available from the Company Secretary at Hiscox Ltd, 4th Floor, Wessex House, 45 Reid Street, Hamilton HM 12, Bermuda.

Dividends and transfers to reserves
The directors do not recommend the payment of a dividend for the year ended 31 December 2018 (2017: £nil). The total comprehensive income for the financial year of £7,359,000 (2017:£4,110,000) has been transferred to the Company's retained earnings.

Going concern
The Company has net current liabilities of £46,738,000 at 31 December 2018 (2017: £66,662,000). The financial statements are prepared on a going concern basis which the directors believe to be appropriate for the following reasons. The Company is dependent for its working capital on funds provided to it by Hiscox plc, the Company's immediate parent. Hiscox plc has confirmed that for at least 12 months from the date of approval of these financial statements, it will continue to make available such funds as are needed by the Company and in particular will not seek repayment of the amounts currently made available. This should enable the Company to continue in operational existence for the foreseeable future by meeting its liabilities as they fall due for payment. Working capital forecasts have been prepared for the Group up to 31 December 2021, which demonstrate that the Group has sufficient resources to continue in operational existence for the foreseeable future.

As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue beyond at least 12 months from the date of approval of these financial statements although they have no reason to believe that it will not do so.

Directors
The names of the directors of the Company who held office during the year are listed on page 1 of these financial statements. The directors have no interests in the shares of the Company, nor in the shares of any other Group company other than in the ultimate parent company. The interests of the directors, who are all directors of the ultimate parent company, are shown in the consolidated financial statements of Hiscox Ltd.

Future developments and principal risks have been disclosed in the Strategic Report.

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 2018 and at the date of this report.

Political and Charitable Contributions
The Company made no political contributions during the year (2017: £ nil). Donations are paid by the Company, however these are fully recharged to other Hiscox entities and no cost is retained in the Company's own expenses (2017: £nil).

Employees and pension arrangements
All UK employees within the Hiscox group are employed by the Company.

The immediate parent company, Hiscox plc, established the Hiscox Group's defined benefit scheme which primarily provides benefits for UK employees. The Company, as the employer, recharges the movement in the defined benefit scheme liability to certain other UK subsidiaries as an expense.

HISCOX UNDERWRITING GROUP SERVICES LIMITED

Directors' Report for the Year Ended 31 December 2018 (continued)

Disclosure of information to auditors
The directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware, and each director has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

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.

By order of the Board on 27 September 2019.

K M Hubber
Company Secretary

HISCOX UNDERWRITING GROUP SERVICES LIMITED

Statement of Directors' Responsibilities in respect of the Financial Statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the 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 these financial statements, the directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable International Financial Reporting Standards (IFRSs) as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

In the case of each Director in office at the date of 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 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 Underwriting Group Services Limited

Report on the audit of the financial statements

Opinion

In our opinion, Hiscox Underwriting Group Services Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; 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 (the "Annual Report"), which comprise: the Balance Sheet as at 31 December 2018; the Statement of Profit or Loss and Other Comprehensive Income, the Statement of Cash Flows, the Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

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, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

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 the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require 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 2018 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.

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.

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 received 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.

Robert Cordock (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
30 September 2019

HISCOX UNDERWRITING GROUP SERVICES LIMITED

Statement of Profit or Loss and Other Comprehensive Income for the Year Ended 31 December 2018

	Note	2018 £ 000	2017 £ 000
Revenue	4	311,600	258,993
Administration expenses	5	(319,000)	(267,512)
Foreign exchange gains/(losses)	6	17	(913)
Loss before tax		(7,383)	(9,432)
Tax (expense)/credit	10	(401)	4,908
Loss for the year (all attributable to the owners of the Company)		(7,784)	(4,524)
Items that will not be reclassified subsequently to the Statement of Profit or Loss and Other Comprehensive Income			
Remeasurement of net defined benefit liability	13	18,245	10,403
Income tax relating to components of other comprehensive income		(3,102)	(1,769)
		15,143	8,634
Total comprehensive income for the year (all attributable to the owners of the Company)		7,359	4,110

The above results were derived from continuing operations.

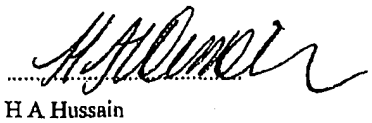
The notes on pages 13 to 33 form an integral part of these financial statements.

HISCOX UNDERWRITING GROUP SERVICES LIMITED

(Registration number: 4137419)
Balance Sheet as at 31 December 2018

	Note	2018 £ 000	2017 £ 000
Assets			
Intangible assets	8	67,561	66,711
Property, plant and equipment	9	14,373	15,273
Deferred tax assets	10	14,979	20,360
Financial assets at amortised cost	11	378,424	283,944
Cash and cash equivalents		26,719	3,937
Total assets		502,056	390,225
Equity and liabilities			
Equity			
Share capital	12	-	-
Retained earnings		50,176	39,601
Total equity (all attributable to the owners of the Company)		50,176	39,601
Liabilities			
Employee retirement benefit obligations	13	28,088	47,492
Trade and other payables	14	423,792	303,132
Total liabilities		451,880	350,624
Total equity and liabilities		502,056	390,225

The financial statements were approved by the Board on 27 September 2019 and signed on its behalf by:



H A Hussain
Director

The notes on pages 13 to 33 form an integral part of these financial statements.

HISCOX UNDERWRITING GROUP SERVICES LIMITED

Statement of Changes in Equity for the Year Ended 31 December 2018

	Retained earnings £ 000	Total equity £ 000
At 1 January 2017	30,293	30,293
Loss for the year	(4,524)	(4,524)
Other comprehensive income	8,634	8,634
Total comprehensive income	4,110	4,110
Current and deferred tax on employee share options	5,198	5,198
At 31 December 2017	39,601	39,601

	Retained earnings £ 000	Total equity £ 000
At 1 January 2018	39,601	39,601
Loss for the year	(7,784)	(7,784)
Other comprehensive income	15,143	15,143
Total comprehensive income	7,359	7,359
Current and deferred tax on employee share options	3,216	3,216
At 31 December 2018	50,176	50,176

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

The notes on pages 13 to 33 form an integral part of these financial statements.

HISCOX UNDERWRITING GROUP SERVICES LIMITED

Statement of Cash Flows for the Year Ended 31 December 2018

	Note	2018 £ 000	2017 £ 000
Cash flows from operating activities			
Loss for the year before tax		(7,383)	(9,432)
Adjustments to cash flows from non-cash items			
Depreciation and amortisation charge	5	16,765	12,003
Change in operational assets and liabilities		30,115	20,886
Net cash flow from operating activities		39,497	23,457
Cash flows from investing activities			
Acquisitions of property plant and equipment		(2,423)	(4,072)
Acquisition of intangible assets	8	(14,292)	(18,739)
Net cash flows used in investing activities		(16,715)	(22,811)
Cash and cash equivalents at 1 January		3,937	3,291
Net increase in cash and cash equivalents		22,782	646
Cash and cash equivalents at 31 December		26,719	3,937

The Company acts as a service company for the Hiscox Group incurring costs and recharging as appropriate to other Group entities. Tax credits included within intercompany balances are excluded from the changes in operational assets and liabilities above.

HISCOX UNDERWRITING GROUP SERVICES LIMITED

Notes to the Financial Statements for the Year Ended 31 December 2018

1. General Information

Hiscox Underwriting Group Services 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 the company information page and the nature of the Company's operations and principal activities are included within the Strategic Report. All operations are continuing.

2. Significant accounting policies

2.1 Basis of preparation
The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and interpretations issued by the International Accounting Standards Board (IASB), as adopted by the European Union (EU) and in accordance with the provisions of the Companies Act 2006.

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.

After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements. The Company's cash resources are managed on a Group basis. Working capital forecasts have been prepared for the Group up to 31 December 2021, which demonstrate that the Group has sufficient resources to continue in operational existence for the foreseeable future.

Except as described below, the accounting policies presented in these Financial Statements are consistent with those of the previous financial year.

New accounting standards, interpretations and amendments to published standards
A number of new standards, amendments to standards and interpretations, as adopted by the European Union, are effective for annual periods beginning on or after 1 January 2018. They have been applied in preparing these financial statements. The new standards include:

-IFRS 15 Revenue from Contracts with Customers replaces IAS 18 and establishes principles for revenue recognition that apply to all contracts with customers except for insurance contracts, financial instruments and lease contracts. It requires an entity to recognise revenue when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. In particular, it specifies that variable consideration is only recognised to the extent that it is highly probable that a significant reversal will not occur. The adoption of this standard has no impact on the Company's financial statements, because the point at which control of a performance obligation is transferred to customers matches the point in which the risk and rewards were transferred under IAS18. The accounting policy as noted in 2.5 has been updated to reflect the new requirements.

-IFRS 9 Financial instruments incorporates new classification and measurement requirements for financial assets, the introduction of an expected credit loss impairment model which will replace the incurred loss model of IAS 39 and new hedge accounting requirements. Accounting policy 2.3 and 2.8 have been updated to reflect the new requirements. IFRS 9 does not require the restatement of comparative periods in respect of the classification and measurement requirements of the standard. There are no reclassifications of financial assets and liabilities at 1 January 2018. There are no changes to the measurement of financial assets measured at amortised cost at 1 January 2018 as a result of applying the new impairment model.

2. Significant accounting policies (continued)

New accounting standards, interpretations and amendments to published standards (continued)
The following new standards, and amendments to standards, are effective for annual periods beginning after 1 January 2019 and have not been applied in preparing these financial statements:

-IFRS 16 Leases replaces IAS 17 and addresses the definition of a lease, recognition and measurement of leases. The adoption of this standard will affect primarily the accounting for the Company's operating leases. As of the reporting date the estimated discounted non-cancellable operating lease commitments of £8.8m would be recognised as an additional asset and liability on the balance sheet. IFRS16 is effective from 1 January 2019 and has been endorsed by the EU.

No new standards, amendments to standards and interpretations effective for annual periods beginning on or after 1 January 2019 are expected to have a material impact on the financial statements and have not been applied in preparing these financial statements.

2.2 Foreign currency translation
The functional currency of the Company is Pound 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 statement of profit or loss. Non-monetary items carried at historical cost are translated in the balance sheet at the exchange rate prevailing at the original transaction date.

2.3 Financial assets at amortised cost
The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. The Group initially measures all financial assets which are amounts due from Group undertakings at amortised cost.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. In assessing whether contractual cash flows are SPPI compliant, interest is defined as consideration primarily for the time value of money and the credit risk of the principal outstanding.

The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. Information that is considered in determining the applicable business model includes (i) policies and objectives for the relevant portfolio, (ii) how the performance and risks of the portfolio are managed, evaluated and reported to management, and (iii) the frequency, volume and timing of sales in prior periods, sales expectations for future periods, and the reasons for such sales.

Financial assets are measured at amortised cost if they are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows, and their contractual cash flows represent SPPI. The Company's financial assets at amortised cost are amounts due from Group undertakings.

Other financial assets with cash flows that are not solely payments of principal and interest are classified as and measured at fair value through profit or loss. These include derivative instruments that are not designated as hedging instruments, and equity investments. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the income statement. Currently there is no financial assets classified into this category as the Company's business model for managing all financial assets is to hold and collect contractual cash flows and their cash flows represent SPPI.

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. Significant accounting policies (continued)

2.5 Revenue
Revenue comprises management fees charged to the Hiscox Group companies and Syndicates 33 and 3624 for the provision of staff, premises and outsourced services. Revenue is recognised when, or as, the control of the goods or services are transferred to a customer i.e. performance obligations are fulfilled at an amount that reflects the consideration to which the Group expects to be entitled in exchange for goods and services.

2.6 Intangible assets
Intangible assets comprise internally developed computer software which is capitalised where the cost can be measured reliably, the Company intends to and has adequate resources to complete development and where the computer software will yield future economic benefits in excess of the costs incurred. These assets are held at cost less accumulated amortisation and impairment losses and are amortised on a straight line basis over the useful economic life which is deemed to be 10 years.

2.7 Property, plant and equipment
Property, plant and equipment are stated at historical cost less depreciation and any impairment loss. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance items are charged to the income statement during the period in which they are incurred.

The cost of leasehold improvements is amortised over the unexpired term of the underlying lease or the estimated useful life of the asset, whichever is shorter. Depreciation of tangible fixed assets is calculated by reference to cost, less estimated residual value, at rates estimated to write off the relevant assets over their expected useful lives, taking into account normal commercial and technical obsolescence. The costs arising on the acquisition of short leasehold premises are being amortised over the period of the leases.

The principal annual rates used are:

Other equipment & vehicles 3 years
Short leasehold improvements 10 - 15 years
Furniture & fittings 3 -15 years

The assets' residual values and useful lives are reviewed at each balance sheet date and adjusted if appropriate. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying value is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the income statement.

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

(a) Non-financial assets
Objective factors that are considered when determining whether a non-financial asset may be impaired include, but are not limited to, the following:
adverse economic, regulatory or environmental conditions that may restrict future cash flows and asset usage and/or recoverability;
the likelihood of accelerated obsolescence arising from the development of new technologies and products; and
the disintegration of the active market(s) to which the asset is related.

2. Significant accounting policies (continued)

2.8 Impairment of assets (continued)
(b) Financial assets
The Company recognises an allowance for expected credit losses (ECLs) for all financial assets at amortised cost. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For short-term financial assets at amortised cost i.e. amounts due from Company undertakings, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

(c) Impairment loss
An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

Where an impairment loss reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods. A reversal of an impairment loss is recognised as income immediately. Impairment losses recognised in respect of goodwill are not subsequently reversed.

2.9 Pensions
The Company contributes towards the funding of the Hiscox Group's defined benefit pension scheme. Contributions are levied on the Company, as the employer of the benefitting staff, by the scheme's sponsor, Hiscox plc. Consequently the Company is assessed as being the entity with the obligation to fund any deficit and therefore accounts for the scheme in accordance with the provisions of IAS 19, recognising the scheme's surplus or deficit on its balance sheet.

The amount recognised in the balance sheet in respect of defined benefit pension plan is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. Together with adjustments for unrecognised actuarial gains or losses. Plan assets include insurance contracts. The calculation of the defined benefit obligation is performed annually by a qualified actuary using the projected unit method. As the plan is closed to all future benefit accrual, each participant's benefits under the plan are based on their service to the date of closure or earlier, leaving their final pensionable earnings at the measurement date, and the service cost is the expected administration cost during the year. Past service costs are recognised immediately in income.

2.Significant accounting policies (continued)

2.9 Pensions (continued)
Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in the Statement of Profit or Loss and Other Comprehensive Income. The Company determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in profit or loss through operating expenses.

To the extent that a surplus emerges on the defined benefit obligation, it is only recognisable on the asset side of the balance sheet when it is probable that future economic benefits will be recovered by the scheme sponsor in the form of refunds or reduced future contributions.

The Company also contributes towards the defined contribution plan which is a pension plan under which the Company pays fixed contributions into a separate legal entity and has no further funding obligation beyond the agreed contribution rate. Payments are made to publicly or privately administered pension insurance plans on a contractual basis. The contributions are recognised as an employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

2.10 Leases
(a) As Lessee
Leases in which significantly all of the risk and rewards of ownership are transferred to the Company are classified as finance leases. At the commencement of the lease term, finance leases are recognised as assets and liabilities at the lower of fair value of the asset and the present value of the minimum lease payments. The minimum lease payments are apportioned between finance charges and repayments of the outstanding liability, finance charges being charged to each period of the lease term so as to produce a constant rate of interest on the outstanding balance of the liability. All other leases are classified as operating leases. Payments under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight line basis over the period of the lease.

(b) As Lessor
Rental income from operating leases is recognised on a straight line basis over the term of the relevant contractual agreement.

2.11 Taxation
Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

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.

2.12 Dividend distribution
Dividend distribution to the Company's shareholder is recognised as a liability in the Company's financial statements in the period in which the dividend is approved.

2. Significant accounting policies (continued)

2.13 Use of critical estimates, judgements and assumptions
The preparation of financial statements requires the use of significant estimates, judgements and assumptions. The directors consider the accounting policies for determining the carrying value of intangible assets and the determination of current and deferred tax assets and liabilities, and the valuation of the defined benefit obligation as being most critical to an understanding of the Company's result and position.

Legislation concerning the determination of taxation assets and liabilities is complex and continually evolving. In preparing the Company's financial statements, the directors estimate taxation assets and liabilities after taking appropriate professional advice. The determination and finalisation of agreed taxation assets and liabilities may not occur until several years after the balance sheet date and consequently the final amounts payable or receivable may differ from those presently recorded in these financial statements.

The estimate of the defined benefit obligation involves the use of estimates and assumptions. These are discussed more fully in note 14 of the financial statements along with a sensitivity analysis.

3 Management of risk

Overview of risk
The Company is part of the Hiscox Group whose Board has developed a governance framework and set Group-wide risk management policies and procedures which cover specific areas such as risk identification, risk management and mitigation, and risk reporting. The overall appetite for accepting and managing varying classes of risk is defined by the Company's Board. The main sources of risk relevant to the Company's operations and its financial statements relate to financial risk.

Financial risk
Overview
The Company is exposed to financial risk through its financial assets and liabilities. The most important financial risks for the Company are that of credit risk, liquidity risk and currency risk.

(a) Credit risk
The Company has exposure to credit risk, which is the risk that a counterparty will suffer a deterioration in solvency or be unable to pay amounts in full when due. The Company evaluates the required allowance for credit losses on amounts due from group undertakings based upon the repayment terms, the interest rate payable on the balances and the ability of the Group company to make the repayment in accordance with the terms of the arrangement.

Hiscox Group largely centralises the treasury function for its subsidiaries and so repayment of balances from other Group companies may require the borrower to collect balances that it has owing from other Group companies. It is expected that in most cases the Group balances will be collectable in full. In some cases, letters of support have been provided to enable the supported Company to meet its liabilities as they fall due.

(b) Liquidity risk
The Company is exposed to liquidity risk arising from the inability to recover its debtor balances, and consequential inability to pay liabilities as they fall due. As all of the Company's debtors are from related entities, all of whom are supported by the Company's parent company, liquidity risk is considered to be minimal.

(c) Currency risk
The Company's currency risk is related to the foreign exchange movement on its foreign currency denominated inter-group items. The Company considers changes in foreign exchange to be a short term impact and as balances are repayable on demand, it has the ability to ensure settlement of such balances are at a time when the exchange rate is not significantly detrimental to the Company's financial position.

3 Management of risk (continued)
3(c) Currency risk (continued)

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

As at 31 December 2018	Sterling £000	Euro £000	US Dollar £000	Total £000
Intangible assets	67,561	-	-	67,561
Property, plant and equipment	14,373	-	-	14,373
Deferred tax assets	14,979	-	-	14,979
Financial assets at amortised cost	239,272	5,963	133,189	378,424
Cash and cash equivalents	4,738	9,400	12,581	26,719
Total assets	340,923	15,363	145,770	502,056
Employee retirement benefit obligations	28,088	-	-	28,088
Trade and other payables	378,668	3,146	41,978	423,792
Total liabilities	406,756	3,146	41,978	451,880

As at 31 December 2017	Sterling £000	Euro £000	US Dollar £000	Total £000
Intangible assets	66,711	-	-	66,711
Property, plant and equipment	15,273	-	-	15,273
Deferred tax assets	20,360	-	-	20,360
Financial assets at amortised cost	201,587	6,063	76,294	283,944
Cash and cash equivalents	198	3,730	9	3,937
Total assets	304,129	9,793	76,303	390,225
Employee defined benefit obligation	47,492	-	-	47,492
Trade and other payables	241,254	41,480	20,398	303,132
Total liabilities	288,746	41,480	20,398	350,624

Sensitivity analysis
The estimated impact of a 10% strengthening or weakening of the US Dollar and Euro in the next year, against the Pound Sterling occurring on total equity and loss before tax is shown below. This analysis assumes all other variables remain constant and that the underlying valuation of assets in their base currency is unchanged.

3 Management of risk (continued)
3(c) *Currency risk (continued)*

Sensitivity analysis (continued)

	Effect on equity	Effect on profit before tax	Effect on equity	Effect on profit before tax
	2018	2018	2017	2017
	£000	£000	£000	£000
Strengthening of US Dollar	(9,341)	(11,533)	(5,000)	(6,212)
Weakening of US Dollar	7,643	9,436	4,091	5,082
Strengthening of Euro	(1,100)	(1,357)	2,834	3,521
Weakening of Euro	900	1,111	(2,319)	(2,881)

4 Revenue

The analysis of the company's revenue for the year from continuing operations is as follows:

	2018	2017
	£ 000	£ 000
Transfer pricing charges	2,284	1,632
Management fees	307,182	256,297
Loan interest	2,134	806
Research and development tax credits	-	258
	311,600	258,993

During the year, the Company incurred total operating expenses of £319,000,000 (2017: £267,512,000). The total amount recharged to the managed syndicate and other Group companies for the year was £307,182,000 (2017: £256,297,000).

5 Administration expenses

	2018 £ 000	2017 £ 000
Amortisation expense	13,442	9,182
Depreciation expense	3,323	2,821
Auditors' remuneration	25	22
Employee benefit expenses (see note 7)	108,871	96,217
Defined benefit pension expense	9,470	8,647
Rent and rates	10,904	11,778
Legal and professional fees	22,241	21,173
Computer software and IT services	67,993	43,497
Marketing and advertising	18,817	16,467
Travel and entertaining	11,816	10,590
Irrecoverable VAT	13,633	10,384
Other staff expenses	21,986	19,555
Other administration expenses	16,479	17,179
Total administration expenses	319,000	267,512

Fees payable to the Company's external auditors, PricewaterhouseCoopers LLP, its member firms and its associates (exclusive of VAT) were £968,000 for the year (2017: £905,000) for the Company and its UK subsidiaries. This is recharged to the various Group companies where applicable. Audit fees retained in the Company for the audit of these financial statements for the year was £25,000 (2017: £22,000) and were entirely for the audit of the accounts. Total fees paid to the auditors and other associates are disclosed in the Hiscox Ltd financial statements (note 11 of the annual report). The Company is exempt under SI 2008/489 from the obligation to disclose fees in respect of 'Other services' as the Company is a subsidiary of Hiscox Ltd, which prepares consolidated financial statements. Fees paid to the Company's auditors for services other than the statutory audit of the Company and other Group undertakings are disclosed in the consolidated accounts of Hiscox Ltd. There were no non-audit fees paid to the Company's auditors.

6 Foreign exchange gains/(losses)

	2018 £ 000	2017 £ 000
Finance costs		
Foreign exchange gains/(losses)	17	(913)

7 Staff costs

a) The employment costs to the Company of these persons were as follows:

	Wages and salaries	Social security costs	Other pension costs	2018 Total	Wages and salaries	Social security costs	Other pension costs	2017 Total
	£000	£000	£000	£000	£000	£000	£000	£000
Syndicate 33	29,887	4,303	2,376	36,566	28,732	4,156	2,159	35,047
Hiscox Insurance Co. Ltd	36,929	5,580	3,205	45,714	32,148	4,423	2,756	39,327
Hiscox Underwriting Ltd	2,218	333	185	2,736	1,880	250	145	2,275
Hiscox Bermuda	1,709	267	141	2,117	1,296	212	106	1,614
Hiscox Capital Ltd	910	125	94	1,129	827	96	73	996
Hiscox Insurance Company Inc	6,015	870	465	7,350	4,203	663	366	5,232
Hiscox ASM Ltd	606	157	47	810	629	67	46	742
Hiscox Ltd	1,731	296	135	2,162	1,345	219	102	1,666
Hiscox plc	1,212	183	58	1,453	1,047	318	44	1,409
Syndicate 3624	3,728	544	321	4,593	3,552	483	304	4,339
Hiscox Guernsey	970	164	81	1,215	745	109	61	915
Hiscox Europe Underwriting Ltd	139	18	10	167	71	12	5	88
Direct Asia	-	50	54	104	-	11	54	65
Hiscox Re	919	126	84	1,129	808	110	80	998
Hiscox MGA	1,299	220	107	1,626	1,250	162	92	1,504
Total	88,272	13,236	7,363	108,871	78,533	11,291	6,393	96,217

The amounts above charged to the managed syndicates and other Group companies as management fees were £108,871,000 (2017: £96,217,000) for salary and related costs. Other pension costs include defined contribution pension expense plus life assurance benefits.

b) The average number of persons employed by the Company (including directors) by category was :

	2018 Number	2017 Number
Administration	889	729
Underwriting	446	457
	1,335	1,186

7 Staff costs (continued)

c) Directors' emoluments

All the directors are remunerated by the Company for their services to the Group as a whole. They are not remunerated directly for their services as directors of the Company and the amount of time spent performing their duties in incidental to their role across the Group. This is consistent with prior years.

The Directors' remuneration is disclosed in and within the aggregate of key management compensation in the annual report and accounts of Hiscox Ltd.

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.

	2018	2017
Deferred members of the defined benefit scheme	2	2
Deferred members of the defined contribution scheme	3	3
Aggregate gains made on performance share plan awards (£000's)	1,572	4,516

8 Intangible assets

	Software development costs	Total
At 1 January 2017	£000	£000
Cost	101,336	101,336
Accumulated depreciation	(44,182)	(44,182)
Opening net book value	**57,154**	**57,154**
Additions	18,739	18,739
Amortisation charge	(9,182)	(9,182)
Closing net book amount at 31 December 2017	**66,711**	**66,711**
At 1 January 2018		
Cost	120,075	120,075
Accumulated depreciation	(53,364)	(53,364)
Opening net book value	66,711	66,711
Additions	14,292	14,292
Amortisation charge	(13,442)	(13,442)
Closing net book amount at 31 December 2018	**67,561**	**67,561**
At 31 December 2018		
Cost	134,367	134,367
Accumulated depreciation	(66,806)	(66,806)
Net book amounts 31 December 2018	**67,561**	**67,561**

9 Property, plant and equipment

At 1 January 2017	Short leasehold buildings £000	Fixtures & fittings £000	Other equipment & vehicles £000	Total £000
Cost	1,866	21,212	7,846	30,924
Accumulated depreciation	(1,285)	(10,667)	(4,950)	(16,902)
Opening net book value	**581**	**10,545**	**2,896**	**14,022**
Additions	170	1,413	2,531	4,114
Disposal	-	-	(42)	(42)
Depreciation charge	(504)	(1,715)	(602)	(2,821)
Closing net book amount at 31 December 2017	**247**	**10,243**	**4,783**	**15,273**
At 1 January 2018				
Cost	2,036	22,625	10,242	34,903
Accumulated depreciation	(1,789)	(12,382)	(5,459)	(19,630)
Opening net book value	**247**	**10,243**	**4,783**	**15,273**
Additions	-	1,677	785	2,462
Disposal	-	(19)	52	33
Transfer	-	(72)	-	(72)
Depreciation charge	(157)	(2,513)	(653)	(3,323)
Closing net book amount at 31 December 2018	**90**	**9,316**	**4,967**	**14,373**
At 31 December 2018				
Cost	2,036	24,220	11,070	37,326
Accumulated depreciation	(1,946)	(14,904)	(6,103)	(22,953)
Net book amounts 31 December 2018	**90**	**9,316**	**4,967**	**14,373**

10 Tax expense/(credit)

Tax charged/(credited) in the income statement

	2018 £ 000	2017 £ 000
Current taxation		
UK corporation tax	(1,596)	(1,846)
Adjustments in respect of prior periods	(461)	(1,598)
Total current tax credit	(2,057)	(3,444)
Deferred taxation		
(Expense)/credit for the year	1,316	(3,077)
Arising from changes in tax rates and laws	1,142	1,613
Total deferred taxation expense/(credit)	2,458	(1,464)
Tax expense/(credit) in the income statement	401	(4,908)

	2018 £000	2017 £000
Loss before tax	(7,783)	(9,432)
Tax calculated at the standard rate of corporation tax in the UK 19% (2017:19.25%)	(1,403)	(1,816)
Effects of:		
Non-taxable expenses	640	432
Adjustments in respect of prior years	543	(339)
Changes in deferred tax rates	138	354
Transfer from equity	483	(3,539)
Total tax expense/(credit) for the year	401	(4,908)

	2018 £000	2017 £000
Deferred tax assets	14,979	20,360

Movement on the deferred tax asset	2018 £000	2017 £000
At 1 January	20,360	18,078
Income Statement (credit)/expense	(2,458)	1,464
Transfer to equity	(2,923)	818
At 31 December	14,979	20,360

10 Tax expense/(credit) (continued)

The Company is part of a Group Payment Arrangement for corporation tax purposes and accordingly tax balances are settled by the UK parent company, Hiscox plc. The corporation tax balances disclosed above represent amounts surrendered or received from Group companies as part of this process.

Deferred tax assets analysed by balance sheet heading

	2018	2017
	£000	£000
Tangible assets	175	228
Intangible assets	(3,918)	(4,383)
Provisions	2,725	2,769
Retirement benefit obligation	4,775	8,074
Share based compensation	11,222	13,672
Total deferred tax assets	14,979	20,360

Factors affecting tax charges in future years.
Finance Act 2016, which received Royal Assent on 15 September 2016, reduced the main rate of corporation tax to 17% from 1 April 2020. The main UK rate will therefore reduce from 19% to 17% from 1 April 2020. The impact of these changes in future periods will be dependent on the level of taxable profits in those periods.

11 Financial assets at amortised cost

	2018	2017
	£ 000	£ 000
Amounts due from Group undertakings	342,357	257,925
Other debtors	36,067	26,019
	378,424	283,944

The amounts expected to be recovered before and after one year are estimated as follows:

	2018	2017
	£000	£000
Within one year	295,452	176,114
After one year	82,972	107,830
	378,424	283,944

Amounts due from group undertakings are repayable on demand, however repayment has not been requested.

12 Share capital

Called up, allotted and fully paid shares

	2018 Number of shares	2018 £	2017 Number of shares	2017 £
Ordinary shares of £1 each	2	2	2	2

13 Pension

The Company's parent, Hiscox plc, operates a defined benefit pension scheme based on final pensionable salary. The scheme closed to future accrual with effect from 31 December 2006 and active members were offered membership of a defined contribution scheme from 1 January 2007. The funds of the defined benefit scheme are controlled by the Trustee and are held separately from those of the Hiscox. As the employer of the staff who are members of the scheme, the Company is required to fund the scheme and therefore it accounts for the defined benefit pension obligation. The pension scheme is accounted for under IAS 19 (2011) which results in the full recognition of the defined benefit deficit on the balance sheet. See note 2 for more detail.

The gross amount recognised in the Group balance sheet in respect of the defined benefit scheme is determined as follows:

	2018 £000	2017 £000
Present value of scheme obligations	237,089	273,803
Fair value of scheme assets	(209,001)	(226,311)
Deficit for unfunded plans, recorded as a defined benefit obligation	28,088	47,492

The unrecognised net actuarial losses are the net cumulative gains and losses on both the scheme's obligations and underlying assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit actuarial cost method. A formal full actuarial valuation is performed on a triennial basis, most recently at 31 December 2017, and updated at each intervening balance sheet date by the actuaries. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows using interest rates of AA rated corporate bonds that have terms to maturity that approximate to the terms of the related pension liability.

13 Pension (continued)

The scheme assets are as follows:	2018	2017
	£000	£000
Managed funds pooled investment vehicles:		
UK equity funds	68,726	76,939
Emerging markets equity funds	8,915	12,249
Global equity funds	36,327	38,652
Bond funds	57,279	60,468
US equities	22,347	22,409
Cash	15,407	15,594
Total	209,001	226,311

All managed fund pooled investment vehicles and equity holdings have quoted prices in active markets. The majority of the scheme's debt and fixed income assets are held through the ownership of units in managed credit funds issued by Standard Life Assurance Limited which invest in a broad spread of high-quality corporate bonds with derivatives used in controlled conditions to extend durations in some cases.

The amounts recognised in the Statement of Profit or Loss and Other Comprehensive Income are as follows:	2018	2017
	£000	£000
Past service cost	64	-
Interest recognised on defined benefit obligation	6,970	7,208
Interest income on plan assets	(5,737)	(5,689)
Net interest income	1,297	1,519
Administrative expenses and taxes	344	237
Total expense recognised in operational expenses in the income statement	1,641	1,756

Remeasurements:	**2018**	**2017**
	£000	**£000**
Effect of change in financial assumptions	(34,740)	3,736
Return of plan assets (excluding interest income)	16,495	(14,139)
Remeasurement of third-party names share of defined benefit contribution	3,056	1,742
Total remeasurement included in other comprehensive income in Hiscox Group	(15,189)	(8,661)
Total defined benefit credit recognised in comprehensive income	(13,548)	(6,905)

13 Pension (continued)

In October 2018, the High Court in the UK issued a ruling to address the inequalities in the calculation of guaranteed minimum pensions (GMPs) for member of pension schemes. This ruling requires pension funds to increase the benefits of some members of the pension scheme.

The Group has completed an estimate of the impact of the ruling on the scheme using one of the methods identified by the High Court (C2) for equalising GMPS. The Group has recognised a charge of £64,000 during the year.

The movement in liability recognised in the Company's balance sheet is as follows:	**2018**	2017
	£000	£000
Defined benefit liability at the beginning of the year	47,492	56,139
Third-party Names' share of liability	(7,954)	(9,402)
Net defined benefit liability at beginning of year	39,538	46,737
Defined benefit cost included in net income	1,641	1,756
contribution by employer	(2,800)	-
Charge from third-party Names	(275)	(294)
Total remeasurement included in other comprehensive income	(15,189)	(8,661)
Net defined benefit liability	22,915	39,538
Third party Names' share of liability	5,173	7,954
Defined benefit liability at the end of the year	28,088	47,492

A reconciliation of the fair value of scheme assets is as follows:	**2018**	2017
	£000	£000
Opening fair value of scheme assets	226,311	214,933
Interest income	5,737	5,689
Contribution by employer	2,800	-
Cash flow - Benefit payments	(6,561)	(8,213)
Cash flow - Administration expenses	(344)	(237)
Increase due to plan contributions		
Remeasurements - return on plan assets (excluding interest income)	(16,495)	14,139
Remeasurements - insurance contract adjustments	(2,447)	-
Closing fair value of scheme assets	209,001	226,311

13 Pension (continued)

A reconciliation of fair value of scheme obligations as as follows:

	2018	2017
	£000	£000
Opening present value of obligations	273,803	271,072
Past service cost	64	-
Interest expense	6,970	7,208
Cash flow - benefit payments	(6,561)	(8,213)
Remeasurements - changes in financial assumptions	(34,740)	3,736
Remeasurements - insurance contracts adjustment	(2,447)	-
Closing present value of scheme obligations	237,089	273,803

Assumptions regarding future mortality experience are set based on professional advice, published statistics and actual experience.

The average life expectancy in years of a pensioner retiring at age 60 on is as follows:

	At the balance sheet date		15 years post the balance sheet date	
	2018	2017	2018	2017
	Years	Years	Years	Years
Male	27.9	28.6	28.9	29.9
Female	28.9	29.8	30.1	31.2

The weighted average duration of the defined benefit obligation at 31 December 2018 was 19 years (2017: 23 years).

Other principle assumptions are as follows:

	2018 %	2017 %
Discount rate	2.9	2.6
Inflation assumption (RPI)	3.1	3.1
Inflation assumption (CPI)	2.1	2.1
Pension increases	3.1	3.1

The triennial valuation carried out as at 31 December 2017 resulted in a deficit position of £26.5 million on a funding basis. The Group and the scheme's trustees have agreed a recovery plan to reduce the deficit and to eliminate the deficit by 2024. A funding contribution of £2.8 million was paid during 2018 and under the plan a further payment of £2.8 million will be made during 2019 and annually thereafter. The funding plan will be reviewed again following the next triennial funding valuation which will have an effective date of 31 December 2020.

While management believes that the actuarial assumptions are appropriate, any significant changes to those could affect the balance sheet and income statement. For example, an additional one year of life expectancy for all scheme members would increase the scheme obligations by £8,764,000 at 31 December 2018 (2017: £9,420,000), and would increase the recorded net deficit on the balance sheet by the same amount.

13 Pension (continued)

The most sensitive and judgemental assumptions are the discount rate and inflation. These are considered further below.

CPI revaluation in deferment is used for contracted-out members. Contracted-in members are linked to RPI as well as for all pension in payment increase.

The Company has estimated the sensitivity of the net obligation recognised in the balance sheet to isolated changes in these assumptions at 31 December 2018 as follows:

	Present value of unfunded obligations before change in assumptions	Present value of unfunded obligations after change	Decrease/(increase) in obligation recognised on balance sheet
	£000	£000	£000
Effect of change in discount rate			
Use of discount rate of 2.85%	28,088	17,142	10,946
Use of discount rate of 2.35%	28,088	39,823	(11,735)
Effect of increase in inflation			
Use of RPI inflation assumption of 3.35%	28,088	32,121	(4,033)
Use of RPI inflation assumption of 2.85%	28,088	24,312	3,776

14 Financial liabilities at amortised cost

	2018	2017
	£ 000	£ 000
Amounts due to Group undertakings	336,675	234,709
Other creditors	87,117	68,423
Total trade and other payables	423,792	303,132

The amounts expected to be recovered before and after one year are estimated as follows:

	2018	2017
	£000	£000
Within one year	399,869	246,713
After one year	23,923	56,419
	423,792	303,132

Amounts due to group undertakings are repayable on demand, however repayment has not been requested.

15 Lease commitments - operating leases

The Company acts as a central service provider for the Group and payments made for lease commitments are recharged to the relevant Group entities. The following commitments under operating leases relate to the Company as lessee and are disclosed in full.

	2018	2018	2017	2017
	Land and Buildings	Total	Land and Buildings	Total
Operating leases which expire:	£000	£000	£000	£000
No later than one year	1,053	1,053	910	910
Later than one year and no later than five years	3,616	3,616	3,649	3,649
Later than five years	2,437	2,437	3,400	3,400
	7,106	7,106	7,959	7,959

*Comparative figures have been restated to reflect minimum lease payments where the Company was the lessee. As part of its initial assessment of the adoption of IFRS 16, Management identified £16.3 million of the previously reported figure £24.3 million to be either service contracts or minimum lease commitments related to lease agreements signed by other UK Group companies for which the lease payments were delegated to the company.

16 Related party transactions

The Company is part of the Hiscox Group and is the Group's sole employer of all UK staff and acts as a cost centre. Costs incurred are recharged to fellow Group companies on an allocation basis. Recharges are also made to Lloyds Syndicate 33 in which Hiscox Ltd, has a 72.6% ownership stake.

Transactions with the immediate and ultimate parent company

	2018	2018	2017	2017
	Income	Payable	Income	Payable
	£000	£000	£000	£000
Hiscox Ltd	5,483	(28,217)	6,298	(21,534)
Hiscox Plc	4,946	(244,735)	7,686	(150,754)

Transactions with associated companies

	2018	2018	2017	2017
	Income	Receivable	Income	Receivable
	£000	£000	£000	£000
Associated companies	296,754	280,491	242,313	197,344

Included within total expenses above are recharges to Lloyd's syndicate 33 of £87,034,000 (2017: £74,000,000). The total amount due from the syndicate at the year-end was £46,900,000 (2017: due from the syndicate £31,815,000).

17 Parent and ultimate parent undertaking

The immediate parent of the Company is Hiscox plc, a company incorporated in Great Britain. The ultimate parent company is Hiscox Ltd, a company incorporated in Bermuda.

The smallest and largest group in which the results of the Company are consolidated is that headed by Hiscox Ltd, Bermuda. There are no other group financial statements including the results of the Company. The consolidated financial statements of Hiscox Ltd are available to the public and may be obtained from: Wessex House, 45 Reid Street, Hamilton, HM12, Bermuda.