Registration number: 00070234

HISCOX INSURANCE COMPANY LIMITED

Annual Report and Financial Statements

HISCOX INSURANCE COMPANY LIMITED

Contents

HISCOX INSURANCE COMPANY LIMITED

Company Information

Chairman	Robert Simon Childs
Directors	Benjamin Adam Walter *[appointed 5 December 2018]* Bronislaw Edmund Masojada *[resigned 21 June 2018]* Christian Leth Nielsen Colin Keogh (non-executive director) *[appointed 29 November 2018]* Gunnar Stokholm (non-executive director) *[resigned 29 November 2018]* Hamayou Akbar Hussain Helen Louise Heslop (non-executive director) Henry Charles Vaughan Keeling (non-executive director) Joanne Riddick Musselle Richard Colin Watson *[resigned 21 June 2018]* Robert Simon Childs Stéphane Flaquet *[resigned 23 January 2019]* Stephen Langan *[resigned 21 June 2018]*
Company secretary	Bethany Francesca Emma Hunt Keith Michael Hubber *[appointed 21 December 2018]*
Registered office	1 Great St Helen's London EC3A 6HX
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

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 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. In addition the Company seeks to enhance profit through its conservative investment strategy which includes exposure to both debt and equity securities. There have not been any significant changes in the Company's principal activities in the year under review and at the date of reporting, there are no significant changes expected in the Company's principal activities, other than those disclosed in the Future Developments section on page 4.

The Company underwrites insurance risk sold through underwriting agents in 7 UK locations: London, Glasgow, Birmingham, Maidenhead, Colchester, Manchester and York. The Company also underwrites insurance risk sold through underwriting agents with operating branches in France, Germany, Netherlands, Belgium, Ireland, Spain, and Portugal.

The sole subsidiary of the Company, Construction and General Guarantee Insurance Company Limited, is an Irish company which no longer trades.

The Company's operations form the vast majority of the UK and Europe divisions of Hiscox Limited, the ultimate parent.

Business review

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

	2018	2017
Gross Premiums Written (£000)	768,581	700,972
Net premiums written (£000)	386,575	351,879
Net premiums earned (£000)	377,345	337,411
Underwriting result (£000)*	2,769	6,785
Investment result (£000)	(1,539)	9,883
Profit before tax (£000)	1,231	16,668
Gross Claims Ratio (%)	40.0	37.9
Net Claims Ratio (%)	47.2	47.1
Operational expenses ratio (%)	26.5	25.7
Net Combined ratio (%)	99.3	98.0
Return on capital employed pre-tax (%)	0.5	6.4

**Underwriting result includes claims expenses, acquisition expenses, operational expenses, other revenues and foreign exchange gains and losses*

Business review *continued*

In 2018, the Company's gross premiums written increased by 9.6% to £768,581 thousands (2017: £700,972 thousands). This growth rate was primarily achieved organically from our businesses across the UK, Ireland and Continental Europe. The remainder was generated from a small book acquisition in our personal lines account and a new partnership. The gross claims ratio increased by 3.1 percentage points to 40.0% (2017: 37.9%) driven by liability lines of business which experienced a gross ratio of 21.5% (2017: 16.4%) with 2017 being an exceptionally benign year for liability losses.

The operational expenses ratio deteriorated to 26.5% from 25.7% in 2017. This is mainly driven by the increase of costs related with information technology.

HIC's investments generated a loss of £1,539 thousand in 2018 compared to a gain of £9,883 thousands in 2017, driven by a decline in investment return. In addition, HIC made significantly lower foreign exchange gains of £513 thousands compared to £3,669 thousands in 2017, when we benefitted from Euro appreciation. This led to an overall reduction in profit before tax for 2018 to £1,231 thousands compared to £16,668 thousands in 2017.

The Board declared a £35,000 thousands interim dividend for the year ended 31 December 2018 (2017: nil), which was paid during 2018. No final dividend has been declared for the year ended 31 December 2018 (2017: nil).

The Company continues to benefit from a financial strength rating of A (Excellent) from AM Best, A (Strong) from Standard & Poor's and an A+ (Strong) rating from Fitch.

The Hiscox Limited Group manages its operations on a divisional basis. For this reason, the Company's directors believe that other key performance indicators for the Company, other than those shown above, are not necessary or appropriate to an understanding of the development, performance or position of the business. The performance and position of the UK and Europe division of Hiscox Limited, of which the Company is the major constituent, is discussed in the Group's Annual Report which does not form part of this Report. Copies of the Group's Annual Report may be obtained from the Hiscox Limited registered office, Wessex House, 45 Reid Street, Hamilton HM 12 Bermuda.

Principal risks and uncertainties

In common with other insurers, the Company's earnings can be significantly impacted by repeated clusters of unpredictable events and circumstances such as natural and man-made catastrophes, latent claim developments and inconsistent judicial developments. 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. Sophisticated modelling and compliance tools are used to ensure that the aggregation and concentration of actual insurance acceptances do not exceed the level desired or anticipated by management.

Aside from those debtors arising from the reinsurance programmes mentioned above, there is no significant concentration of credit risk, as the Company has a large number of internationally dispersed policyholders and debtors, with none owing individually material amounts.

The Company is financed by the equity investment from its parent together with retained earnings. It has no debt finance and therefore has no material interest rate risk exposure in relation to borrowings, with the exception of a Letter of Credit facility of £50 thousands with NatWest Bank to support the consortium activities with Lloyd's.

Principal risks and uncertainties *continued*

Competitive pricing pressure is a continuing risk for the Company. The Company competes against other major insurers with very similar product offerings and in markets where excess levels of 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. 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 market risk by providing superior levels of customer service and straightforward, well managed procedures.

The Company writes a considerable amount of premium income through binding agents who are granted authority to accept risks on the Company's behalf. All delegations of underwriting authority are strictly controlled. 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.

The Company establishes reserves for unpaid claims, defence costs and related expenses to cover its ultimate liability in respect of both reported claims and incurred but not reported claims (IBNR). The company's reserving procedures utilise standard actuarial methodologies and appropriate work review. Management consider the need for additional reserves above the best estimate to capture the uncertainties in the underlying business and the actuarial models, reserves are therefore set in a conservative manner. However, there remains a risk that the ultimate liabilities could be materially different to the amounts currently reserved.

Information on the management of financial risk by the Company is disclosed in note 3 to the financial statements. In particular, the Company's exposure to interest rate risk, equity price risk, credit risk, liquidity risk and currency risk are separately disclosed in that note.

Future developments

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

As a consequence of the UK's decision to exit the EU, the Company made the decision to amend its operating structure and undertook a Part VII transfer of its European Union risk exposures excluding the UK into a new Luxembourg regulated entity Hiscox SA. This transaction was completed on 1 January 2019 and details are provided in note 25.

Approved by the Board on 12 April 2019 and signed on its behalf by:

....

Christian Leth Nielsen
Director

HISCOX INSURANCE COMPANY LIMITED

Directors' Report for the Year Ended 31 December 2018

The directors have pleasure in submitting their annual report and financial statements for the year ended 31 December 2018.

The Company is a UK authorised insurer and is a wholly owned subsidiary of Hiscox Insurance Holdings Limited. The ultimate parent is Hiscox Limited which is incorporated in Bermuda and has recently entered the FTSE 100 listing on the London Stock Exchange.

The key performance indicators are shown in page 2.

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 as outlined in note 3 to the financial statements, 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 is operating under the Solvency II capital regime affecting European insurance carriers and ended its reporting under the previous ICAS mechanism. 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 an interim dividend for the year ended 31 December 2018 of £35,000 thousands (2017: £nil). The Board did not declare a final dividend for the year ended 31 December 2018 (2017: £nil).

The profit for the financial year after tax of £1,570 thousands (2017: £8,411 thousands) has been transferred from 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 Limited as granted by the Performance Share Plan are detailed in note 20.

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 to charitable organisations made during the year, all of which are in the UK, amounted to £nil (2017: £80 thousands).

Employees and pension arrangements

All employees are employed by Hiscox Underwriting Group Services Limited. Its management charge to the Company includes basic salary cost and employee benefits and pension expenses. In 2017 the Company stopped being recharged by Hiscox Group for the defined benefit pension scheme surplus or deficit.

Disclosure of information to auditors

The directors' responsibilities statement is disclosed on 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.

Approved by the Board on 12 April 2019 and signed on its behalf by:

....

Helen Louise Heslop
Non-executive Director

Statement of Directors' Responsibilities in respect of the Directors' Report and the Financial Statements

The directors are responsible for preparing the Annual Report and the 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 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 the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union 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 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.

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.

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

Our 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 2018 and of its profit 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.

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

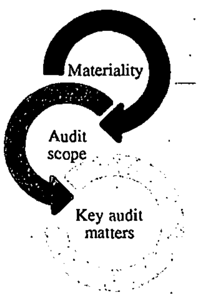
We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance 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 to the company.

Other than those disclosed in note 8 to the financial statements, we have provided no non-audit services to the company in the period from 1 January 2018 to 31 December 2018.

Our audit approach

Overview



- Overall materiality: £7.4 million (2017: £6.6 million), based on 1% of gross earned premium.

- We performed a full scope audit of the company using the overall materiality of £7.4 million.

- Valuation of incurred but not reported (IBNR) insurance liabilities and the associated reinsurers' share of IBNR insurance liabilities.

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.

Capability of the audit in detecting irregularities, including fraud

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 and European regulatory principles, such as those governed by the Prudential Regulation Authority and the Financial Conduct Authority, 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 preparation of 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 management bias and judgemental areas of the financial statements such as that shown in the 'Key Audit Matters' section below. 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 Company'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;
- Reading key correspondence with the Prudential Regulation Authority and the Financial Conduct Authority in relation to compliance with laws and regulations;
- Reviewing relevant meeting minutes including those of the Risk Committee and Audit Committee;
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations or posted by senior management;
- Designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing; and
- Testing transactions entered into outside of the normal course of the Company's business.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. 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.

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.

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

Key audit matters (continued)

Key audit matter	*How our audit addressed the key audit matter*
Valuation of incurred but not reported (IBNR) insurance liabilities ("loss reserves") and the associated reinsurer's share Total gross IBNR loss reserves and the associated reinsurers' share of IBNR loss reserves are material estimates in the financial statements and as at 31 December 2018 amount to £319.7million and £219.5million respectively. The methodologies and assumptions used to develop IBNR loss reserves and the reinsurers' share of IBNR loss reserves involves a significant degree of judgement. As a result, we focused on this area as the valuation can be materially impacted by numerous factors including: • the underlying volatility attached to estimates for certain classes of business, where small changes in assumptions can lead to large changes in the levels of the estimate held and the reported profit; • the risk of inappropriate assumptions used in determining current year estimates. Given that limited data is available, especially for 'long-tailed' classes of business, there is greater reliance on expert judgement in management's estimation; • the judgements made in significant areas of uncertainty, for example, liability and casualty classes of business; and • the risk that IBNR loss reserve estimates in respect of natural catastrophes and other large claims losses are inappropriate. There is significant judgement involved in the estimation of such loss estimates, particularly as they are often estimated based on limited data.	We have understood, evaluated and tested the design and operational effectiveness of key controls in place in respect of the valuation of IBNR loss reserves and the associated reinsurers' share of IBNR loss reserves. This work, supplemented with tests of detail, included (i) reviewing and testing the reconciliation of data from the underlying policy administration systems to the data used in the actuarial projections, (ii) testing the completeness and accuracy of premiums and claims data used in the actuarial projections, and (iii) testing to ensure IBNR loss reserves, as a component of insurance liabilities, and the associated reinsurers' share of IBNR loss reserves were reviewed, approved and reconciled to the financial statements. In performing our detailed audit work over the valuation of IBNR loss reserves and the associated reinsurers' share of IBNR loss reserves we used PwC actuarial specialists. Our procedures included: • developing independent point estimates for classes of business considered to be higher risk, particularly focusing on the largest and most uncertain estimates, as at 30 September 2018 and performing roll-forward testing to 31 December 2018. For these classes, we compared our re-projected estimates to those booked by management; • testing, for the other classes of business, (including those impacted by natural catastrophes and other large claims), the methodology and assumptions used by management to derive the IBNR loss reserve estimates; • performing analytical review procedures over the remaining classes of business to evaluate IBNR loss reserves; and • re-calculating gross to net ratios on a test basis against the estimated IBNR loss reserves to calculate the estimated reinsurers' share of IBNR loss reserves. Based on the work performed we found that the IBNR loss reserves and the associated reinsurers' share of IBNR loss reserves were supported by the evidence we obtained.

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

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.

The company is a single business within the wider Hiscox Limited Group. There are no group scoping considerations and the company is audited on a full scope basis, hence testing has been performed over all material financial statement line items. No work is performed by component auditors in support of the audit opinion.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality, and 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 materiality	£7.4 million (2017: £6.6 million).
How we determined it	1% of gross earned premium.
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 gross earned premium was the most relevant benchmark to these users.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £370,000 (2017: £334,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

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.

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

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 Directors' Report and the Financial Statements set out on page 7, 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.

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

Responsibilities for the financial statements and the audit *continued*

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.

Appointment

Following the recommendation of the audit committee, we were appointed by the directors 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 3 years, covering the years ended 31 December 2016 to 31 December 2018.

Paul Pannell (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
12 April 2019

HISCOX INSURANCE COMPANY LIMITED

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

	Note	2018 £000	2017 £000
Income			
Gross premiums written	5	768,581	700,972
Outward reinsurance premiums	5	(382,006)	(349,093)
Net premiums written	5	386,575	351,879
Gross premiums earned	5	741,935	668,527
Premiums ceded to reinsurers	5	(364,590)	(331,116)
Net premiums earned	5	377,345	337,411
Investment result	5	(1,539)	9,883
Other revenue	5	-	27
Expenses			
Claims and claim adjustment expenses, net of reinsurance	21	(178,260)	(159,084)
Expenses for the acquisition of insurance contracts	14	(58,838)	(49,226)
Operational expenses	6	(137,991)	(126,012)
Foreign exchange gains		513	3,669
Total expenses		(374,576)	(330,653)
Profit before tax		1,231	16,668
Income tax credit / (expense)	9	339	(8,257)
Profit for the year and total comprehensive income		1,570	8,411

The above results were derived from continuing operations.

The Company did not recognise any other comprehensive income for the current or prior year. All profit is attributable to the owners of the Company.

HISCOX INSURANCE COMPANY LIMITED

Balance Sheet as at 31 December 2018

	Note (s)	2018 £ 000	2017 £ 000
Assets			
Investments	10	2,527	2,527
Deferred acquisition costs	14, 25	48,028	81,542
Financial assets carried at fair value	11, 15, 19, 25	411,268	518,252
Reinsurance assets	12, 21, 25	339,049	456,467
Loans and receivables including insurance receivables	13, 25	208,813	240,439
Current tax asset		7,237	1,256
Cash and cash equivalents	16	41,720	66,244
Assets held for distribution to owners	25	394,064	-
		1,452,706	1,366,727
Equity and liabilities			
Equity			
Share capital	17	70,000	70,000
Share premium		215	215
Retained earnings		139,796	173,226
Total equity		210,011	243,441
Liabilities			
Deferred tax liabilities	9	2,960	4,291
Financial liabilities	11	21	-
Insurance liabilities	21	636,538	902,245
Current tax liability		1,313	4,258
Trade and other payables	18	207,799	212,492
Liabilities held for distribution to owners	25	394,064	-
		1,242,695	1,123,286
Total equity and liabilities		1,452,706	1,366,727

All equity is attributable to the owners of the Company.

Approved by the Board on 12 April 2019 and signed on its behalf by:

....

Christian Leth Nielsen
Director

Hiscox Insurance Company Limited
Registered number 00070234

The notes on pages 14 to 51 form an integral part of these financial statements.

HISCOX INSURANCE COMPANY LIMITED

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

	Share Capital £000	Share Premium £000	Retained Earnings £000	Total equity £000
At 1 January 2018	70,000	215	173,226	**243,441**
Profit/(Loss) for the year	-	-	1,570	**1,570**
Total comprehensive income for the year	**70,000**	**215**	**174,226**	**243,441**
Dividends paid to owners of the Company	-	-	(35,000)	**(35,000)**
Capital release relating to equity-settled share-based payments	-	-	(828)	**(828)**
Remittance from parent for equity-settled share-based payments	-	-	828	**828**
At 31 December 2018	**70,000**	**215**	**139,796**	**210,011**

	Share Capital £000	Share Premium £000	Retained Earnings £000	Total equity £000
At 1 January 2017	70,000	215	204,815	**275,030**
Profit/(Loss) for the year	-	-	8,411	**8,411**
Total comprehensive income for the year	**70,000**	**215**	**213,226**	**283,441**
Dividends paid to owners of the Company	-	-	(40,000)	**(40,000)**
Capital contribution relating to equity-settled share-based payments	-	-	6,967	**6,967**
Charge from parent for equity-settled share-based payments	-	-	(6,967)	**(6,967)**
At 31 December 2017	**70,000**	**215**	**173,226**	**243,441**

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

HISCOX INSURANCE COMPANY LIMITED

Statement of Cash Flows for the Year Ended 31 December 2018

	Note	2018 £ 000	2017 £ 000
Cash flows from operating activities			
Profit before tax		1,231	16,668
Adjustments to cash flows from non-cash items			
Interest and Equity dividend income		(10,486)	(9,162)
Net fair value gains on financial investments and derivatives		3,812	(1,393)
Effect of exchange rate fluctuations on cash presented separately		(777)	(728)
Insurance and reinsurance contracts decrease		11,880	25,664
Financial assets carried at fair value		(25,388)	(1,352)
Other assets and liabilities decrease		18,941	11,248
Cash flows from operations		**(787)**	**40,945**
Interest received		10,238	8,794
Equity dividends received		248	101
Current tax paid		(11,825)	(12,926)
Direct debit income		-	267
Net cash flows from operating activities		**9,699**	**37,181**
Dividends paid to the owners of the Company	22	(35,000)	(40,000)
Net cash flows from financing activities		**(35,000)**	**(40,000)**
Cash and cash equivalents at 1 January		66,244	68,335
Net decrease in cash and cash equivalents		(25,301)	(2,819)
Effect of exchange rate fluctuations on cash held		777	728
Cash and cash equivalents at 31 December	16	**41,720**	**66,244**

The purchase, maturity and disposal of financial assets are part of the Company's insurance activities and are therefore classified as an operating cash flow. The purchase, maturity and disposal of derivative contracts are also classified as an operating cash flow.

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 the Directors and Advisors' page and the nature of the Company's operations and principal activities are included within the Strategic Report.

2 Significant accounting policies

2.1. *Basis of preparation*

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and in accordance with the provisions of the Companies Act 2006.

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

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 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.

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 4. 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. The directors have an 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 has classified the assets and liabilities to be transferred to Hiscox SA in connection with the Part VII transfer as held for distribution to owners under IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. As a result, these assets and liabilities are shown separately on the face of the balance sheet. Please refer to note 25 for an analysis of the assets and liabilities held for distribution to owners and those remaining with the Company.

With the exception of note 25, all other notes to the financial statements show a comprehensive disclosure of both assets and liabilities of the Company including those that are classified as assets and liabilities of operations held for distribution to owners.

The principal 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.

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 and not had a material impact on the results for the year.

2 Significant accounting policies *continued*

2.1. Basis of preparation *continued*

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 its revenues are not in scope of this standard.

The following new standards, and amendments to standards, are effective for annual periods beginning after 1 January 2018 and have not been applied in preparing these financial statements:

- 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. The Company satisfies the criteria set out in IFRS 4 Insurance Contracts for the temporary exemption from IFRS 9. At 31 December 2015 (the date specified by IFRS 4), the carrying value of the Company's liabilities connected with insurance comprised over 90% of the total liabilities. These include significant insurance liabilities and creditors arising from insurance operations (£69 million). The activities of the Company remain predominately connected with insurance. Based on a high-level impact assessment using currently available information, the Company expects no significant impact on its balance sheet and equity, except for the effect of applying the new impairment requirements. The Company expects a recognition of an earlier and higher loss allowance resulting in a negative impact on equity and will perform a detailed assessment in the future to determine the extent. IFRS 9 has been endorsed by the EU.

- IFRS 16 Leases replaces IAS 17 Leases and addresses the definition of a lease, recognition and measurement of leases. The adoption of this standard no impact on the Company's financial statements as it does not have a lease arrangement. IFRS 16 is effective from 1 January 2019 and has been endorsed by the EU.

- IFRS 17 will replace IFRS 4 and includes a number of significant changes to the measurement, presentation and disclosure of insurance contracts. It prescribes a general measurement model based on the discounted current estimates of future cash flows, including an explicit risk adjustment and a contractual service margin which represents the unearned profit of the contracts. Application of a simplified premium allocation approach, which is similar to the current unearned premium approach, is permitted if it provides a measurement that is not materially different from the general model or if the coverage period is one year or less. IFRS 17 requires any expected losses arising from loss-making contracts to be accounted for in the income statement when the entity determines that losses are expected. The Company is evaluating the impact of adopting IFRS 17 on the financial statements and the Group-led implementation programme is progressing in line with expectations. IFRS 17 is expected to be effective on 1 January 2022 and has not been endorsed by the EU.

A number of new standards, amendments to standards and interpretations effective for annual periods beginning after 1 January 2019 have not been applied in preparing these financial statements, and are not expected to have a material impact on the financial statements.

2 Significant accounting policies *continued*

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 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.

2.3. Investment in subsidiary undertakings

Investments in subsidiary undertakings are carried at cost less provision for impairment in value.

2.4. Financial assets including loans and receivables

The Company classifies its financial assets as a) financial assets designated at fair value through profit or loss, and b) loans and receivables. Management determines the classification of its financial investments at initial recognition. The decision by the Company to designate debt and fixed income securities, equities and shares in unit trusts and deposits with credit institutions, at fair value through profit or loss reflects the fact that the investment portfolios are managed, and their performance evaluated, on a fair-value basis. Purchases and sales of investments are accounted for at the date of trade.

Financial assets are initially recognised at fair value. Subsequent to initial recognition, financial assets and liabilities are measured as described below. Financial assets are derecognised when the right to receive cash flows from them expires or where they have been transferred and the Company has also transferred substantially all risks and rewards of ownership.

Fair value for securities quoted in active markets is the bid price exclusive of transaction costs. For the minority of instruments where no active market exists, fair value is determined by referring to recent transactions and other valuation factors including the discounted value of expected future cash flows. Fair value changes are recognised immediately within the investment result line in the income statement.

Financial assets at fair value through profit or loss
A financial asset is classified into this category at inception if it is managed and evaluated on a fair value basis in accordance with documented strategy, if acquired principally for the purpose of selling in the short-term, or if it forms part of a portfolio of financial assets in which there is evidence of short-term profit taking.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. Receivables arising from insurance contracts are included in this category and are reviewed for impairment as part of the impairment review of loans and receivables. Loans and receivables are carried at amortised cost less any provision for impairment in value.

2.5. 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*

2.6. Revenue

Revenue comprises insurance premiums earned on the rendering of insurance protection, net of reinsurance, together with profit commission, investment returns and other income. The accounting policies for insurance premiums are outlined below. Profit commission, investment income and other sources of income are recognised on an accruals basis net of any discounts and amounts such as sales-based taxes collected on behalf of third parties.

2.7. *Insurance contracts*

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

Recognition and measurement
Gross premiums written comprise premiums on business incepting in the financial year together with adjustments to estimates of premiums written in prior accounting periods. Premiums are stated before the deduction of brokerage and commission but net of taxes and duties levied. Premiums are recognised as revenue (earned premiums) proportionally over the period of coverage. The portion of premium received on in-force contracts that relates to unexpired risks at the balance sheet date is reported as the unearned premium liability.

Claims and associated expenses are charged to profit or loss as incurred, based on the estimated liability for compensation owed to contract holders or third parties damaged by the contract holders. They include direct and indirect claims settlement costs and arise from events that have occurred up to the balance sheet date even if they have not yet been reported to the Company. The Company does not discount its liabilities for unpaid claims. Liabilities for unpaid claims are determined based on the best estimate of the cost of future claim payments plus an allowance for risk and uncertainty. Any estimate represents a determination within the range of possible outcomes using, as inputs, the assessments for individual cases reported to the Company, statistical analysis for the claims incurred but not reported, an estimate of the expected ultimate cost of more complex claims that may be affected by external factors, for example, court decisions and an allowance for quantitative uncertainties not otherwise approved.

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

Liability adequacy tests
At each balance sheet date, liability adequacy tests are performed by the company to ensure the adequacy of the contract liabilities net of related DAC. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from assets backing such liabilities, are used. Any deficiency is charged to profit or loss initially by writing-off DAC and by subsequently establishing a provision for losses arising from liability adequacy tests ('the unexpired risk provision').

Any DAC written-off as a result of this test cannot subsequently be reinstated.

2 Significant accounting policies *continued*

2.7. Insurance contracts *continued*

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

The benefits to which the Company is entitled under outwards reinsurance contracts are recognised in two different reinsurance assets: (i) short-term balances due from reinsurers (classified within loans and receivables) as well as (ii) longer-term receivables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts (classified as reinsurance assets). Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract.

Reinsurance liabilities primarily comprise premiums payable for outwards reinsurance contracts. These amounts are recognised in profit or loss proportionally over the period of the contract. Receivables and payables are recognised when due.

The Company assesses its reinsurance assets on a regular basis and, if there is objective evidence, after initial recognition, of an impairment in value, the Company reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises the impairment loss in the income statement.

Retroactive reinsurance transactions
Reinsurance transactions that transfer risk but are retroactive are included in reinsurance assets. The excess of estimated liabilities for claims and claim expenses over the consideration paid is established as a deferred credit at inception. The deferred amounts are subsequently amortised using the recovery method over the settlement period of the reserves and reflected through the claims and claim adjustment expenses line. In transactions where the consideration paid exceeds the estimated liabilities for claims and claim adjustment expenses a loss is recognised immediately. If the adverse development exceeds the original loss, deferred gains are recorded. The deferred gains are subsequently recognised into earnings over the settlement period of the reserves.

Receivables and payables related to insurance contracts
Receivables and payables are recognised when due. These include amounts due to and from agents, brokers and insurance contract holders. If there is objective evidence that the insurance receivable is impaired, the Company reduces the carrying amount of the insurance receivable accordingly and recognises the impairment loss in the income statement.

Salvage and subrogation reimbursements
Some insurance contracts permit the Company to sell property acquired in settling a claim (i.e. salvage). The Company may also have the right to pursue third parties for payment of some or all costs (i.e. subrogation). Estimates of salvage recoveries are included as an allowance in the measurement of the insurance liability for claims and salvage property is recognised in other assets when the liability is settled. The allowance is the amount that can reasonably be recovered from the disposal of the property.

Subrogation reimbursements are also considered as an allowance in the measurement of the insurance liability for claims and are recognised in other assets when the liability is settled. The allowance is the assessment of the amount that can be recovered from the action against the liable third party.

2 Significant accounting policies *continued*

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.

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.

Financial assets
Objective factors that are considered when determining whether a financial asset or group of financial assets may be impaired include, but are not limited to, the following:

- negative rating agency announcements in respect of investment issuers, reinsurers and debtors;
- significant reported financial difficulties of investment issuers, reinsurers and debtors;
- actual breaches of credit terms such as persistent late payments or actual default;
- the disintegration of the active market(s) in which a particular asset is traded or deployed;
- adverse economic or regulatory conditions that may restrict future cash flows and asset recoverability; and
- the withdrawal of any guarantee from statutory funds or sovereign agencies implicitly supporting the asset.

Impairment loss
An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). For financial assets, the amount of the impairment loss is measured as the difference between the assets' carrying amount and the value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but 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. Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently valued at their fair value at each balance sheet date. Fair values are obtained from quoted market values and, if these are not available, valuation techniques including option pricing models are used as appropriate. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged. For derivatives not formally designated as a hedging instrument, fair value changes are recognised immediately in the income statement.

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

2 Significant accounting policies *continued*

2.10. 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.

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.

2.11. Provisions

The Company is subject to various insurance related assessments or guarantee fund levies. 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.

2.12. 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.

2.13. Segmental reporting

In accordance with IFRS 8, the Company does not disclose financial information by segment as it is not a publicly traded company, nor does it produce consolidated financial statements. The Company's parent includes the results of the Company within a number of segments disclosed in the Group consolidated financial statements.

2.14. Assets and liabilities held for distribution to owners

A disposal group is classified as held for distribution to owners when the entity is committed to distribute the disposal group to the owners. For this to be the case, the assets must be available for immediate distribution in their present condition and the distribution must be highly probable. For the distribution to be highly probable, actions to complete the distribution must have been initiated and should be expected to be completed within one year from the date of classification. Actions required to complete the distribution should indicate that it is unlikely that significant changes to the distribution will be made or that the distribution will be withdrawn. The probability of shareholders' approval should be considered as part of the assessment of whether the distribution is highly probable.

Assets and liabilities held for distribution to owners are shown separately in the balance sheet. These are recorded at the lower of their carrying amount and their fair value less the estimated selling costs.

2.15. Use of critical estimates, judgement and assumptions

The preparation of financial statements requires the use of significant estimates, judgements and assumptions. The Directors consider the accounting policies for determining insurance liabilities, the valuation of investments and the determination of deferred tax assets and liabilities as being most critical to an understanding of the Company's result and position.

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

2 Significant accounting policies *continued*

2.15. Use of critical estimates, judgement and assumptions *continued*

Critical 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;
- Financial investments: classification and measurement of investments including the application of the fair value option.

Significant accounting estimates
All estimates are based on management's knowledge of current facts and circumstances, assumptions based on that knowledge and their predictions of future events. Actual results may differ from those estimates, possibly significantly. Estimates are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. The following describes items considered particularly susceptible to changes in estimates and assumptions.

The most critical estimate included within the Company's balance sheet is the estimate for losses incurred but not reported. The total gross estimate as at 31 December 2018 (including liabilities held for distribution to owners) is £319,660 million (2017: £295,732 million) and is included within total insurance liabilities on the balance sheet. Estimates of losses incurred but not reported are continually evaluated, based on entity-specific historical experience and contemporaneous developments observed in the wider industry when relevant, and are also updated for expectations of prospective future developments. Although the possibility exists for material changes in estimates to have a critical impact on the Company's reported performance and financial position, it is anticipated that the scale and diversity of the Company's portfolio of insurance business considerably lessens the likelihood of this occurring. The overall reserving risk is discussed in more detail in note 3 and the procedures used in estimating the cost of settling insured losses at the balance sheet date including losses incurred but not reported are detailed in note 21.

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 broker quotes and models utilising broker quotes and models using both observable and unobservable market inputs. The valuation techniques involve judgement with regard to the valuation models used and the inputs to these models can lead to a range of plausible valuation for financial investments. Note 19 discusses the reliability of the Company's fair values.

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 9. 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. 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.

The Company's core business is to take risk where it is adequately rewarded, guided by a strategy that aims to maximise return on equity within a defined risk appetite.

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, credit risk, operational risk, regulatory & legal risk and group risk. Risk informs every important decision that is made.

Risk strategy

The Company's robust risk strategy allows the upside of the risks pursued to be captured and as well as effectively managing the downside. 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 continuous improvement in risk awareness and responses.

Risk management framework

The risk management framework provides a controlled system for how risk is identified, measured, managed, monitored and reported across the Company. It supports innovative and disciplined underwriting by guiding the appetite and tolerance for risk.

Exposures are regularly monitored to assess the overall level of risk being taken by the Company and risk mitigation approaches. The overall objective is to optimise risk-return decision-making while managing total exposure in order for it to remain within the parameters set by the Company's Board ("the Board").

Risk appetite

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

Risk appetite statements outline the level of risk the Company is willing to assume by risk type and overall. Risk limits and tolerances act as boundaries where actual risk exposure is more actively monitored. Risk tolerance is the maximum threshold that should not be exceeded; nearing it would represent a 'red alert' for senior management and the Board.

Risk appetite is reviewed annually and flexed to respond to internal and external factors such as the growth or shrinkage of an area of the business, or changes in the underwriting cycle which may impact upon capacity and rates.

3 Management of risk *continued*

Risk management across the business

The Company coordinates risk management roles and responsibilities across three lines of defence. These are set out in below.

First line of defence *Owns risk and controls*	The first line of defence is responsible for ownership and management of risks on a day-to-day basis, and 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*	The second line of defence provides independent oversight, challenge and support to the first line of defence. Functions in the second line of defence include the Group Risk team and the Compliance team.
Third line of defence *Provides independent assurance of risk control*	The third line of defence provides independent assurance to the Board that risk control is being managed in line with approved policies, appetite, frameworks and processes. It also helps verify that the system of internal control is operating effectively.

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 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 is at the heart of risk governance and is responsible for setting the Company's risk strategy and appetite, and for overseeing risk management (including the risk management framework).

The Risk Committee of the Board ("the Company's Risk Committee" or "the Risk Committee") advises on how best to manage the Company's risk profile by reviewing the effectiveness of risk management activities and monitoring HIC's risk exposures to inform Board decisions. The Risk Committee relies on frequent updates from within the business and from independent risk experts.

Role of the Group Risk team

The Group Risk team is responsible for designing and overseeing the implementation of the risk management framework and continually improving it. The team works with the business to understand how risks are managed in the first line and whether the approach needs to change. The team is also responsible for monitoring that the business meets regulatory expectations around enterprise risk management and reporting on risk to the Board and the Risk Committee. The Group Risk team is led by the Group Chief Risk Officer, who reports to the Group Chief Executive and Chair of the Risk Committee.

3 Management of risk *continued*

ORSA process

The Company's ORSA process is an evolution of its long-standing risk management and capital assessment processes. It is the self-assessment of the risk mitigation and capital resources necessary to achieve the strategic objectives of the Company on a current and forward-looking basis, while remaining solvent, given its risk profile.

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 'bets'/business initiatives 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 fairness can be demonstrated and evidenced.	The Company has a conduct risk strategy and framework that sets out how can demonstrate that customers are protected and regulatory requirements are met. There is a product governance forum to risk assess products prior to sale and ensure they are subject to periodic review. There is a dedicated 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.

3 Management of risk *continued*

b) Insurance risk - Underwriting risk

The risk that insurance premiums will not be sufficient to cover future insurance claims and associated expenses. It also encompasses people, process and system risks directly related to underwriting, such as human error in paying invalid claims or misquoting premium prices.

What is the risk?	Why does it apply?	How is it managed?
Pricing This is the risk of failing to price policies adequately, or making poor risk selection decisions.	The Company operates in an open, competitive market in which barriers to entry for new players are relatively low. 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. Reinsurance protection, such as excess of loss cover, is purchased to mitigate the effect of catastrophes and unexpected concentrations of risk. However, the scope and type of reinsurance protection purchased may change depending on the extent and competitiveness of cover available in the market.

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 underwriting 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 all prior to appointment and regularly monitored and audited.

c) Reserving

The risk of unsuitable case reserves (e.g. over- or under-reserving) and/or insufficient technical reserves in place to meet incurred losses and associated expenses.

What is the risk?	Why does it apply?	How is it managed?
Claims reserve risk The Company makes financial provisions for unpaid claims, defence costs and related expenses to cover liabilities both from reported claims and from 'incurred but not reported' ("IBNR") claims. If insufficient reserves were put aside to cover exposures, this could affect the Company's future earnings and capital.	When underwriting risks, an estimate is made of both the likelihood of claims occurring and their cost. Actual claims experience could exceed expectations, requiring the levels of reserves held to be increased.	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, as well as by independent actuaries. The relevant boards approve the amount of the final provision, on the recommendation of dedicated reserving committees.

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.

What is the risk?	Why does it apply?	How is it managed?
Investment risk Money received from clients in premiums and the capital on the Company's balance sheet is invested until it is needed to pay claims or other liabilities. These funds can be exposed to investment risk. Investment risk is the probability of loss over a 12 month period for a given investment strategy, or the exposure to inappropriate assets or asset classes. Investment risk also includes the risk of default of investment counterparties, who are primarily the issuers of bonds the Company invests in.	The investment of the Company's assets generates an investment return. The investment portfolio is exposed to a number of risks including, but not limited to, changes in interest rates, credit spreads and equity prices.	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 (including assets held for distribution to owners) in the Company's balance sheet at 31 December 2018 was £56,280 thousands (2017: £59,979 thousands). These are analysed as follows:

% Weighting - Nature of equity and unit trust holdings	2018	2017
Geographic focus		
Specific UK mandate	73	86
Global mandate	27	14
Units held in funds - traditional long only	100	100

A 10% downward correction in equity prices at 31 December 2018 would have been expected to reduce Company equity and profit after tax for the year by approximately £4,502 thousands (2017: £4,798 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 (including assets held for distribution to owners) in the company's balance sheets at 31 December 2018 was £483,569 thousands (2017: £457,078 thousands). These are analysed as follows:

% Weighting - Nature of debt and fixed income holdings	**2018**	2017
Government issued bonds and instruments	**24**	39
Agency and Government supported debt	**23**	34
Corporate bonds	**53**	27
Total	**100**	100

One method of assessing interest rate sensitivity is through the examination of duration-convexity factors in the underlying portfolio. Using a duration-convexity based sensitivity analysis, if market interest rates had risen by 100 basis points at the balance sheet date, the fair value might have been expected to decrease by £8,913 thousands (2017: decrease of £7,659 thousands). If market interest rates had reduced by 100 basis points at the balance sheet date, the fair value might have been expected to increase by £9,174 thousands (2017: increase of £7,959 thousands).

Insurance contract liabilities are not directly sensitive to the level of market interest rates, as they are undiscounted and contractually non-interest-bearing. The Company has no significant borrowings or other assets or liabilities carrying interest rate risk.

The market value of the Company's holdings of deposits with credit institutions is less exposed to movements in interest rates due to the very short timeframe to their maturity.

3 Management of risk *continued*

Principal risks *continued*

e) Liquidity risk

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.	If a catastrophe occurs, 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.

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.

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

Fair values at balance sheet date analysed by contractual maturity (including assets held for distribution to owners)	**Less than one year**	**Between one and two years**	**Between two and five years**	**Over five years**	**Total**
2018	**£000**	**£000**	**£000**	**£000**	**£000**
Debt and fixed income securities	119,290	161,540	201,558	1,181	483,569
Cash and cash equivalents	41,720	-	-	-	41,720
Deposits with credit institutions	-	-	-	-	-
Total	**161,010**	**161,540**	**201,558**	**1,181**	**525,289**

3 Management of risk *continued*

Principal risks *continued*

e) Liquidity risk

Average contractual maturity analysed by denominational currency of debt and fixed income securities as at 31 December (Years)	**2018**
Pound Sterling	**1.8**
Euro	**1.9**

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
2017	£000	£000	£000	£000	£000
Debt and fixed income securities	182,885	85,721	174,881	13,591	457,078
Cash and cash equivalents	66,244	-	-	-	66,244
Deposits with credit institutions	-	1,150	-	-	1,150
Total	249,129	86,871	174,881	13,591	524,472

Average contractual maturity analysed by denominational currency of debt and fixed income securities as at 31 December (Years)	2017
Pound Sterling	1.6
Euro	2.3

The following is an analysis by business segment of the estimated timing of net cash flows based on the claims liabilities 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.

31 December 2018	**Within one year**	**Between one and two years**	**Between two and five years**	**Total**
	£000	**£000**	**£000**	**£000**
Household and domestic all risk	**70,378**	**66,849**	**7,030**	**144,257**
Commercial lines liability	**34,104**	**47,511**	**55,363**	**136,978**
Commercial lines financial loss	**62**	**620**	**831**	**1,513**
Other	**3,963**	**5,409**	**2,892**	**12,264**
Total	**108,507**	**120,389**	**66,116**	**295,012**

3 Management of risk *continued*

Principal risks *continued*

e) Liquidity risk

31 December 2017	Within one year	Between one and two years	Between two and five years	Total
	£000	£000	£000	£000
Household and domestic all risk	65,478	54,606	6,677	126,761
Commercial lines liability	33,405	44,530	53,870	131,805
Commercial lines financial loss	91	137	508	736
Other	5,906	7,058	3,811	16,775
Total	104,880	106,331	64,866	276,077

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 and the solvency 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 across the world, with obligations denominated in the local currency while reporting in pounds.	To reduce foreign exchange risk, these 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.

As at 31 December 2018, the Company used a closing rate of exchange of £1: €1.114 (2017: £1: €1.13). The average exchange rate used for the year was £1: €1.1305 (2017: £1: €1.14).

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

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

3 Management of risk *continued*

Principal risks *continued*

f) Foreign exchange risk continued

As at 31 December 2018 (including assets held for distribution to owners)	**Sterling £000**	**US Dollar £000**	**Euro £000**	**Other £000**	**Total £000**
Investments including subsidiary undertakings	357,408	-	184,968	-	**542,376**
Deferred acquisition costs	50,180	-	40,198	-	**90,378**
Reinsurance assets	364,717	11,115	141,280	-	**517,112**
Loans and receivables including insurance receivables	202,691	183	49,055	1,954	**253,883**
Current tax asset	1,948	-	5,237	52	**7,237**
Cash and cash equivalents	29,634	147	12,404	(465)	**41,720**
Total Assets	**1,006,578**	**11,445**	**433,142**	**1,541**	**1,452,706**

As at 31 December 2018 (including liabilities held for distribution to owners)	**Sterling £000**	**US Dollar £000**	**Euro £000**	**Other £000**	**Total £000**
Deferred tax	2,960	-	-	-	2,960
Financial liability	-	-	21	-	21
Insurance contract liabilities	644,728	11,963	333,818	547	991,056
Current tax	-	-	1,313	-	1,313
Trade and other payables	198,842	(1,136)	49,301	338	247,345
Total Liabilities	**846,530**	**10,827**	**384,453**	**885**	**1,242,695**

3 Management of risk *continued*

Principal risks *continued*

f) Foreign exchange risk continued

	Sterling	US Dollar	Euro	Other	Total
As at 31 December 2017	£000	£000	£000	£000	£000
Investments including subsidiary undertakings	338,596	-	182,183	-	520,779
Deferred acquisition costs	51,780	-	29,762	-	81,542
Reinsurance assets	346,269	10,487	99,711	-	456,467
Loans and receivables including insurance receivables	207,336	591	29,647	2,865	240,439
Current tax asset	71	-	1,132	53	1,256
Cash and cash equivalents	16,166	1,131	49,412	(465)	66,244
Total Assets	960,218	12,209	391,847	2,453	1,366,727

	Sterling	US Dollar	Euro	Other	Total
As at 31 December 2017	£000	£000	£000	£000	£000
Deferred tax	4,291	-	-	-	4,291
Financial liability	-	-	-	-	-
Insurance contract liabilities	619,537	11,435	269,887	1,386	902,245
Current tax	-	-	4,258	-	4,258
Trade and other payables	171,465	563	40,491	-27	212,492
Total Liabilities	795,293	11,998	314,636	1,359	1,123,286

A 10% strengthening or weakening of the Pound Sterling against the Euro at 31 December would be estimated to have an impact on equity and profit or loss before tax by the approximate amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis as in the prior year.

31 December 2018	**Effect on equity £000**	**Effect on profit before tax £000**
Strengthening of Euro	**10,770**	**13,463**
Weakening of Euro	**(8,812)**	**(11,015)**

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 default or downgrade of one or more reinsurance counterparties, causing them to renege on their reinsurance contract(s) (for example, non-payment of claims) or altering the terms of agreement. 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 believed to be financially strong. A dedicated Reinsurance Credit Committee, a subcommittee of the Group 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 ongoing basis and have 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. In the case of some large losses, policyholders are paid directly to reduce broker credit risk on material transactions.

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 intermediaries Hiscox Underwriting Limited (for UK and Ireland written business) and Hiscox Europe Underwriting Limited (for continental European written business). The total intercompany receivable due from the intermediaries Hiscox Underwriting Limited and Hiscox Europe Underwriting Limited (including assets held for distribution to owners) as at 31 December 2018 was £212,768 thousands (2017: £174,654 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 2018 (including assets held for distribution to owners)	Note	AAA	AA	A	BBB/BB	Total
		£000	£000	£000	£000	£000
Debt and fixed income securities	15	198,075	141,531	91,383	52,580	483,569
Deposits with credit institutions	15	-	-	-	-	-
Reinsurance assets, including reinsurance debtors	12	9	38,297	478,806	-	517,112
Cash and cash equivalents	16	-	-	40,391	1,329	41,720
Total		**198,084**	**179,828**	**610,580**	**53,909**	**1,042,401**
Amounts attributable to largest single counterparty		**42,182**	**85,800**	**383,341**	**4,505**	

As at 31 December 2017	Note	AAA	AA	A	BBB/BB	Total
		£000	£000	£000	£000	£000
Debt and fixed income securities	15	186,958	188,912	53,732	27,476	457,078
Deposits with credit institutions	15	-	-	730	420	1,150
Reinsurance assets, including reinsurance debtors	12	8	26,912	429,547	-	456,467
Cash and cash equivalents	16	-	-	66,244	-	66,244
Total		**186,966**	**215,824**	**550,253**	**27,896**	**980,939**
Amounts attributable to largest single counterparty		**53,593**	**130,165**	**363,744**	**2,378**	

3 Management of risk *continued*

Principal risks *continued*

g) Credit risk continued

At 31 December 2018, 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 (2017: £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 the German Bundesbank, for AA is the HM Government Cabinet Office, and for A is Hiscox Insurance Company (Bermuda) Limited, the latter fully collateralised.

At 31 December 2018, the Company had settled the loan facility with Hiscox Underwriting Group Services Limited (2017: £40,000 thousands).

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?
Information security (including cyber security) A failure to properly protect information could compromise the confidentiality, integrity or availability of information and data. Cyber security risk is a subset 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 group, which is chaired by the Group CFO and attended by the Company's COO manages the risk in line with the Group's 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.
Information technology and systems failure A major IT, systems or service failure 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.

3 **Management of risk** *continued*

Principal risks *continued*

h) Operational risk continued

What is the risk?	Why does it apply?	How is it managed?
Project risk and change management This is the risk that projects and/or change initiatives are not delivered to plan, budget or specification, or that the risks inherent in projects, or the interdependencies across projects, are not appropriately managed.	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.	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. The Programme Assurance Office provides oversight across all major programmes. It provides senior management with an independent view of the progress, risks and issues within the programmes, as well as the linkages between them.

4 Analysis of returns on investments

		2018		2017
	Return £000	**Yield %**	Return £000	Yield %
Sterling	**(882)**	**(0.4)**	10,604	2.8
US Dollar	**11**	**0.4**	3	0.6
Euro	**(519)**	**(0.3)**	(847)	(0.3)
Total	**(1,390)**	**(0.2)**	9,760	1.5

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

		2018		2017
	Return £000	**Yield %**	Return £000	Yield %
Debt and fixed income securities	**1,396**	**0.3**	72	0.0
Equities and shares in unit trusts	**(4,007)**	**7.3**	8,305	10.4
Deposits with credit institutions/cash and cash equivalents	**1,221**	**1.6**	1,383	0.6
Total	**(1,390)**	**(0.2)**	9,760	1.7

5 Income

Insurance premiums	2018 £000	2017 £000
Gross premiums written	**768,581**	700,972
Outwards reinsurance premiums	**(382,006)**	(349,093)
Net premiums written	**386,575**	351,879
Gross premiums earned	**741,935**	668,527
Premiums ceded to reinsurers	**(364,590)**	(331,116)
Net premiums earned	**377,345**	337,411

Investment result	2018 £000	2017 £000
Investment income including interest receivable	**10,486**	9,162
Net realised (losses)/gains on financial investments at fair value through profit or loss	**(8,213)**	(672)
Net unrealised fair value gains on financial investments at fair value through profit or loss	**(3,663)**	1,270
Investment result – financial assets	**(1,390)**	9,760
Fair value (losses)/gains on derivative financial instruments	**(149)**	123
Total result	**(1,539)**	9,883

Investment expenses are disclosed separately in other expenses.

Other revenues	2018 £000	2017 £000
Other income	**-**	27

6 Operational expenses

	2018 £000	2017 £000 restated
Employee benefits	**74,350**	72,231
Rent and rates	**3,836**	3,693
Information technology costs	**25,168**	16,058
Investment expenses	**156**	675
Brand royalties	**21,415**	20,057
Outsourcing fees	**288**	2,882
Other	**12,778**	10,416
Total administration expenses	**137,991**	126,012

6 Operational expenses *continued*

The cost charged to the Company for basic salary cost and employee benefits for the year ended 31 December 2018 was £68,945 thousands (2017: £72,231 thousands). This includes the cost of those employees who work on behalf of the Company and a charge of costs from other areas within the Group for the whole year. During the year the Company was not charged for a share of the Group defined benefit pension scheme costs (2017: £nil).

Information technology costs increased significantly due to large infrastructure projects and depreciation of the new platform. Other costs increased reflecting higher variable components driven by strong business performance as well as an increase of the market value of Hiscox shares.

2017 figures have been restated as an amount of employee benefits (£9,696 thousands) were incorrectly included under "Other" expenses.

7 Directors remuneration

All executive directors of the Company are employed by Hiscox Underwriting Group Services Limited. The Company has been recharged £1,492 thousands for their services during the year (2017: £2,631 thousands) of which £20 thousands (2017: £36 thousands) was in relation to contributions to the defined contribution pension scheme. The remuneration charge for the highest paid director as recharged to the Company was £381 thousands (2017: £986 thousands) with no contribution to the defined contribution pension scheme.

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.

	2018 £000	2017 £000
Deferred members of the defined benefit scheme	**0**	2
Pensioner members of the defined benefit scheme	**1**	1
Active members of the defined contribution scheme	**3**	3
Deferred members of the defined contribution scheme	**0**	3
Aggregate gains made on share options and performance share plan awards (£000)	**1,423**	1,294

8 Auditor's remuneration

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

Amounts receivable by the auditor and its associates in respect of:	**2018 £000**	2017 £000
The auditing of the accounts of the Company	**160**	161
All audit-related assurance services	**57**	56
All other non-audit services	**5**	34
Total auditor's remuneration	**222**	251

9 Income tax credit / (expense)

Tax charged/(credited) to the income statement

	2018 £000	2017 £000
Current Taxation		
Expense for the year	2,123	6,405
UK corporation tax adjustment to prior years	(1,130)	3,158
	993	9,563
Deferred Taxation		
Credit for the year	(1,340)	(1,310)
Adjustment in respect of prior years		-
Effect of rate change	9	4
Total deferred taxation	(1,331)	(1,306)
Tax expense in the income statement	(339)	8,257

The Finance Act 2016, which received Royal Assent on 15 September 2016, reduced the main rate of corporation tax to 17% from 1 April 2020, superseding the 18% rate effective from that date introduced in Finance (No.2) Act 2015. The main UK rate was therefore reduced from 20% to 19% from 1 April 2017 and from 19% to 17% from 1 April 2020.

Where relevant deferred tax balances have been remeasured.

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

The tax on profit before tax for the year is calculated at the standard corporation tax rate applicable in the UK of 19% (2017: 19.25%).

	2018 £000	2017 £000
Profit before tax	1,231	16,668
Corporation tax at standard rate of 19% (2017:19.25%)	234	3,209
Adjustment in respect of prior years	(1,130)	3,158
Non Taxable income	(47)	(48)
Expenses not deductible for tax	(157)	1,477
Overseas taxes charged at different rates	753	457
Deferred tax expense (credit) relating to changes in tax rates or laws	8	4
Total tax charge	(339)	8,257

Deferred tax	2018 £000	2017 £000
Deferred tax assets	583	509
Deferred tax liabilities	(3,543)	(4,800)
Total net deferred tax liability	(2,960)	(4,291)

9 Income tax credit / (expense) *continued*

Movement in total deferred tax balance sheet headings

	2018 **£000**	2017 £000
At 1 January	**(4,291)**	(5,597)
Income statement charge	**1,331**	1,306
At 31 December	**(2,960)**	(4,291)

Deferred tax assets analysed by balance sheet headings

At 31 December	2017 £000	Income statement credit £000	**2018** **£000**
Provisions	509	74	**583**
Total deferred tax assets	509	74	**583**

10 Investments in subsidiary undertakings

	2018 **£000**	2017 £000
Construction & General Guarantee Insurance Company Limited (100% ownership)	**2,527**	2,527
Total	**2,527**	2,527

The Construction & General Guarantee Insurance Company Limited is a non-trading company with registered office at 72 Northumberland Road, Dublin 4, Republic of Ireland.

11 Derivative financial instruments included on balance sheet

The Company entered into interest rate futures contracts during 2018 and 2017. The Company had the right and the intention to settle all contracts at a net basis. The assets and liabilities of these contracts at 31 December 2018 all mature within one year of the balance sheet date and are detailed below:

31 December 2018 Derivative financial instruments included on balance sheet	Gross contract notional amount £000	Fair value of assets £000	Fair value of liabilities £000	Net balance sheet position £000
Interest rate futures contracts	52,231		(21)	(21)

31 December 2017 Derivative financial instruments included on balance sheet	Gross contract notional amount £000	Fair value of assets £000	Fair value of liabilities £000	Net balance sheet position £000
Interest rate futures contracts	55,735	45	-	45

11 Derivative financial instruments included on balance sheet *continued*

During the year the Company started short selling German Government bond futures denominated in EUR to informally hedge some of the interest rate risk of the fixed interest portfolio of the same currency. All contracts are exchange traded and the Company made a loss on these futures contracts of £149 thousands (2017: £123 thousands gain) as included in note 5.

12 Reinsurance assets

	2018 £000	2017 £000
Reinsurers' share of insurance liabilities	**517,265**	456,620
Provision for non-recovery and impairment	**(153)**	(153)
Total reinsurance assets	**517,112**	456,467

	2018 £000	2017 £000
The amounts expected to be recovered before and after one year based on historical experience, are estimated as follows:-		
Within one year	**306,075**	270,630
After one year	**211,037**	185,837
Total reinsurance assets	**517,112**	456,467

Amounts due from reinsurers in respect of outstanding premiums and claims already paid by the Company are included in loans and receivables (note 13).

Within the note above, £178,063 thousands assets are held for distribution to owners as at balance sheet date. Please see note 25 for further details.

13 Loans and receivables including insurance receivables

	2018 £000	2017 £000
Gross receivables arising from insurance and reinsurance contracts	**241,062**	192,492
Provision for non recovery and impairment	**(1,452)**	(1,168)
Net receivables arising from insurance and reinsurance	**239,610**	191,324
Due from contract holders, brokers, agents and intermediaries	**215,541**	177,258
Due from reinsurance operations:		
Hiscox Insurance Company (Bermuda) Limited	**20,437**	12,387
Other reinsurance	**3,632**	1,679
	239,610	191,324
Other loans and receivables		
Accrued interest	**3,923**	3,013
Other debtors including related party amounts	**10,350**	46,102
Total loans and receivables including insurance receivables	**253,883**	240,439

13 Loans and receivables including insurance receivables *continued*

The Company has a large number of internationally dispersed debtors, with the one main concentrations being the 70% commercial business ceded to Hiscox Insurance Company (Bermuda) Limited via a quota-share reinsurance treaty.
Within the note above £45,070 thousands assets are held for distribution to owners as at balance sheet date. Please see note 25 for further details.

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

	2018 £000	2017 £000
Within one year	**250,389**	237,122
After one year	**3,494**	3,317
Total	**253,883**	240,439

14 Deferred acquisition costs

	Gross £000	Reinsurance £000	2018 Net £000	Gross £000	Reinsurance £000	2017 Net £000
Balance deferred 1 January	**81,542**	**(64,946)**	**16,595**	72,003	(55,340)	16,663
Acquisition costs incurred in relation to insurance contracts written	**226,020**	**(166,130)**	**59,891**	199,140	(149,981)	49,159
Acquisition costs expensed to the income statement	**(217,184)**	**158,346**	**(58,838)**	(189,601)	140,375	(49,226)
Balance deferred at 31 December	**90,378**	**(72,730)**	**17,648**	81,542	(64,946)	16,596

The deferred amount of insurance contract acquisition costs attributable to reinsurers of £72,730 thousands (2017: £64,946 thousands) is not eligible for offset against the gross balance sheet asset and is included separately within trade and other payables (note 18).

Gross acquisition costs incurred are in relation to commission on direct insurance contracts written.

The amounts expected to be recovered before and after one year as at 31 December 2018 are estimated as follows:

	Gross £000	Reinsurance £000	Net £000
Due within one year	89,099	(71,253)	17,846
After one year	1,279	(1,477)	(198)
Total	90,378	(72,730)	17,648

Within the note above £42,350 thousands assets and £21,511 thousands liabilities are held for distribution to owners as at balance sheet date. Please see note 25 for further details.

15 Financial assets carried at fair value

Financial assets are measured at their bid price values, with all changes from one accounting year to the next being recorded through the income statement, except in the case of unlisted equity investments.

	2018 £000	2017 £000
Debt and fixed income securities	**483,569**	457,078
Equities and shares in unit trusts	**56,280**	59,979
Deposits with credit institutions	-	1,150
Derivative financial instruments	-	45
Total financial assets carried at fair value	**539,849**	518,252

Within the note above £128,581 thousands assets are held for distribution to owners as at balance sheet date. Please see note 25 for further details.

16 *Cash and cash equivalents*

	2018 £000	2017 £000
Cash at hand and in bank	**41,720**	66,244
Total cash and cash equivalents	**41,720**	66,244

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

17 Share capital

	2018 Number of shares	2018 £000	2017 Number of shares	2017 £000
Called up, allotted and fully paid shares of £1 each				
Ordinary shares of £1 each	70,000,000	**70,000**	70,000,000	70,000

Hiscox Insurance Company Limited is a wholly-owned indirect subsidiary of Hiscox Limited which is the Bermudian based holding company of the Hiscox Group and which is listed on the London Stock Exchange. Hiscox Limited has been notified of the following shareholdings of 5% or more of voting rights in the ordinary shares as at 31 December 2018:

Shareholdings	2018 %	2017 %
Invesco Limited	**6.19**	13.12
Massachusetts Financial Service Company	**13.08**	9.67
FMR LLC	**7.97**	5.28
BlackRock, Inc	**8.13**	5.06

The direct holding Company of Hiscox Insurance Company Limited is Hiscox Insurance Holdings Limited. No consolidated financial statements are prepared for this Company. A copy of the consolidated financial statements of Hiscox Limited may be obtained from the Company Secretary, Hiscox Limited, Wessex House, 45 Reid Street, Hamilton HM 12, Bermuda.

18 Trade and other payables

	2018 £000	2017 £000
Creditors arising out of direct insurance operations	**33,342**	21,973
Creditors arising out of reinsurance operations	**73,768**	65,769
	107,110	87,742
Social security and other taxes payable	**16,695**	14,938
Other creditors	**45,525**	38,133
Reinsurers' share of deferred acquisition costs	**72,730**	64,946
Accruals and deferred income	**5,285**	6,733
Total	**247,345**	212,492

The deferred amount in 2018 includes £5,464 thousands (2017: £2,953 thousands) related to the purchase of a retroactive reinsurance contract, which amortisation started in the current financial year. This amount will continue to be subsequently amortised using the recovery method over the settlement period.

All amounts are expected to be settled within one year (2017: within one year).

Within the note above £39,546 thousands assets are held for distribution to owners as at balance sheet date. Please see note 25 for further details.

19 Fair value measurements

As at 31 December 2018	**Level 1 £000**	**Level 2 £000**	**Total £000**
Financial assets			
Debt and fixed income securities	124,714	358,855	**483,569**
Equities and shares in unit trusts		56,280	**56,280**
Deposits with credit institutions	-	-	-
Derivative financial instruments (Note 14)	-	-	-
Total financial assets	**124,714**	**415,135**	**539,849**

As at 31 December 2017	Level 1 £000	Level 2 £000	Total £000
Financial assets			
Debt and fixed income securities	178,098	278,980	457,078
Equities and shares in unit trusts	-	59,979	59,979
Deposits with credit institutions	1,150	-	1,150
Derivative financial instruments (Note 14)	-	45	45
Total financial assets	179,248	339,004	518,252

19 Fair value measurements *continued*

Within the note above £128,581 thousands assets are held for distribution to owners as at balance sheet date. Please see note 25 for further details.

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.

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.

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

20 Share options and Performance Share Plan awards

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 Limited achieving targeted levels of returns on equity. Share options are also conditional on the employees completing 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 Limited achieves its targets of return on equity; the options have a contractual option term of ten years. Hiscox Limited has no legal or constructive obligation to repurchase or settle the options in cash.

In accordance with IFRS 2, the Company recognises an expense for the fair value of share option and Performance Share Plan award instruments issued to employees, over their vesting period through the income statement. The appropriate expense for the Company's directors and senior employees is recharged from Hiscox Limited through to the Company. An income of £828 thousands (2017: charge of £6,967 thousands) was recognised in the income statement during the year. This comprises an income of £1,235 thousands (2017: a charge of £6,588 thousands) in respect of Performance Share Plan awards and a charge of £407 thousands (2017: a charge of £379 thousands) in respect of share option awards. Hiscox Limited has applied the principles outlined in the Black-Scholes option pricing model when determining the fair value of each share option instrument.

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

Assumptions affecting inputs to fair value models	**2018**	2017
Annual risk-free rates of return and discount rates (%)	**0.83-0.89**	0.19-0.26
Long-term dividend yield (%)	**3.05**	3.09
Expected life of options (years)	**3.25**	3.25
Implied volatility of share price (%)	**22.0**	22.0
Weighted average share price (p)	**1,497.8**	1,139.3

The weighted average fair value of each share option granted during the year was 302.5p (2017: 223.6p). The weighted average fair value of each Performance Share Plan award granted during the year was 1,492.9p (2017: 1,127.1p).

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

Date from which exercisable	1 January 2018	Number of awards granted	Number of options lapsed	Number of awards exercised	31 December 2018	Market price at exercise £
7 April 2011 – 6 April 2021	2,969,520	785,694	(181,324)	(646,933)	2,926,957	13.65 – 17.04

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

Date from which exercisable	1 January 2018	Number of awards granted	Number of options lapsed	Number of awards exercised	31 December 2018	Option price £	Market price at exercise £
1 December 2017 – 1 December 2021	670,527	281,463	(50,726)	(161,422)	739,892	5.11 – 11.56	13.67 – 16.85

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.

20 Share options and Performance Share Plan awards *continued*

The total number of options and Performance Share Plan awards, as are charged to the Company, outstanding is 2,926,957 (2017: 2,969,520) of which 944,702 are exercisable (2017: 919,711). The total number of SAYE options outstanding is 739,842 (2017: 670,527).

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

For options issued after 1 January 2006 the assumptions regarding long-term dividend yield have been aligned to the progressive dividend policy announced during the 2005 Rights Issue.

21 Insurance liabilities and reinsurance assets

	2018 £000	2017 £000
Gross		
Claims reported and claim adjustment expenses	**329,613**	291,376
Claims incurred but not reported	**319,659**	295,732
Unearned premiums	**341,784**	315,137
Total insurance liabilities, gross	**991,056**	902,245
Recoverable from reinsurers		
Claims reported and claim adjustment expenses	**134,725**	117,081
Claims incurred but not reported	**219,535**	193,950
Unearned premiums	**162,852**	145,435
Total reinsurers' share of insurance liabilities	**517,112**	456,467
Net		
Claims reported and claim adjustment expenses	**194,888**	174,295
Claims incurred but not reported	**100,124**	101,781
Unearned premiums	**178,932**	169,702
Total insurance liabilities, net	**473,944**	445,778

Within the note above £178,063 thousands assets and £354,518 thousands liabilities are held for distribution to owners as at balance sheet date. Please see note 25 for further details.

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

	2018 £000	2017 £000
Within one year	**287,440**	274,581
After one year	**186,504**	171,197
Total	**473,944**	445,778

The gross claims reported, the loss adjustment expenses liabilities, and the liability for claims incurred but not reported are net of expected recoveries from salvage and subrogation. The amounts for salvage and subrogation at the end of 2018 and 2017 are not material.

21 Insurance liabilities and reinsurance assets *continued*

(a) Process used to decide on assumptions

There are many risks associated with insurance contracts, and this means that there is a considerable amount of uncertainty in estimating the future settlement cost of claims. There is uncertainty in both the amounts and the timing of future claim payment cash flows.

Claims paid are claims transactions settled up to the reporting date including settlement expenses allocated to those transactions.

Unpaid claims reserves are made for known or anticipated liabilities which have not been settled up to the reporting date. Included within the provision is an allowance for the future costs of settling those claims.

The Company relies on actuarial analysis to estimate the settlement cost of future claims. There is close communication between the actuaries and other key stakeholders, such as the underwriters, claims and finance teams when setting and validating the assumptions. The unpaid claims reserve is estimated based on past experience and current expectations of future cost levels. Allowance is made for the current premium rating and inflationary environment.

The claim reserves are estimated on a best estimate basis, taking into account current market conditions and the nature of risks being underwritten.

Under certain insurance contracts, the 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 above the best estimate to help mitigate the uncertainty within the reserve estimates. As the best estimate matures and becomes more certain, the management margin is gradually released in line with the reserving policy. This approach is consistent with last year.

The 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.

21 Insurance liabilities and reinsurance assets *continued*

(b) Claims development tables *continued*

Insurance claims and claims expenses reserves – gross

Accident year	2009 £000	2010 £000	2011 £000	2012 £000	2013 £000	2014 £000	2015 £000	2016 £000	2017 £000	2018 £000	Total £000
Estimate of ultimate claims costs as adjusted for foreign exchange* at end of accident year:											
at end of accident year	214,948	222,340	209,355	212,018	225,177	235,839	260,818	292,407	343,782	385,399	2,602,083
one year later	211,603	228,354	194,810	196,451	203,939	218,636	228,627	246,157	300,167		2,028,744
two years later	195,805	223,177	181,062	181,773	187,004	195,421	200,121	227,293			1,591,656
three years later	193,578	220,059	174,111	179,729	178,612	185,244	193,257				1,324,590
four years later	188,997	213,297	171,558	178,552	178,663	179,572					1,110,639
five years later	188,572	210,913	167,331	178,567	174,062						919,445
six years later	182,623	201,597	167,753	179,462							731,435
seven years later	182,975	198,557	163,031								544,563
eight years later	177,813	195,454									373,267
nine years later	177,185										177,185
Current estimate of cumulative claims	177,185	195,454	163,031	179,462	174,062	179,572	193,257	227,293	300,167	385,399	2,174,882
Cumulative payments to date	(165,404)	(192,852)	(153,236)	(157,460)	(151,076)	(149,608)	(147,841)	(165,503)	(162,742)	(110,271)	(1,555,993)
Liability to external parties only at 100% level	11,781	2,602	9,795	22,002	22,986	29,964	45,416	61,790	137,425	275,128	618,889
Liability to external parties only in respect of prior accident years at 100% level											30,383
Total GROSS liability to external parties at 100% level											649,272

** The foreign exchange adjustment arises from the retranslation of the estimates at each date using the exchange rate ruling at 31 December 2018.*

21 Insurance liabilities and reinsurance assets *continued*

(b) Claims development tables *continued*

Insurance claims and claims expenses reserves – net

Accident year	2009 £000	2010 £000	2011 £000	2012 £000	2013 £000	2014 £000	2015 £000	2016 £000	2017 £000	2018 £000	Total £000
Estimate of ultimate claims costs as adjusted for foreign exchange* at end of accident year:											
at end of accident year	161,049	170,649	151,012	156,192	144,267	151,155	157,095	169,817	192,961	218,835	1,673,032
one year later	160,080	174,786	138,494	145,302	140,145	138,938	138,133	146,378	178,262		1,360,518
two years later	147,597	170,858	132,536	136,992	131,848	128,260	125,463	135,965			1,109,519
three years later	147,609	168,233	126,811	135,075	125,893	120,989	121,525				946,135
four years later	146,794	164,486	126,627	132,181	124,117	115,990					810,195
five years later	146,303	163,300	124,564	131,212	121,939						687,318
six years later	144,913	161,101	124,572	130,043							560,629
seven years later	145,103	161,213	121,517								427,833
eight years later	142,372	159,893									302,265
nine years later	141,687										141,687
Current estimate of cumulative claims	141,687	159,893	121,517	130,043	121,939	115,990	121,525	135,965	178,262	218,835	1,445,656
Cumulative payments to date	(135,033)	(157,783)	(108,376)	(119,556)	(110,075)	(105,610)	(104,227)	(116,182)	(119,270)	(84,947)	(1,161,059)
Liability to external parties only at 100% level	6,654	2,110	13,141	10,487	11,864	10,380	17,298	19,783	58,992	133,888	284,597
Liability to external parties only in respect of prior accident years at 100% level											10,415
Total GROSS liability to external parties at 100% level											295,012

** The foreign exchange adjustment arises from the retranslation of the estimates at each date using the exchange rate ruling at 31 December 2018.*

All assets and liabilities related to ceded reinsurance contracts are reported on a gross basis in the accompanying consolidated balance sheets. Prospective reinsurance premiums, claims, and claim adjustment expenses are accounted for on a basis consistent with the terms of the reinsured contracts. The accompanying consolidated statements of income reflect premiums, benefits, and settlement expenses net of reinsurance ceded.

Transactions that do not transfer risk are included in other assets or other liabilities. Ceded transactions that transfer risk but are retroactive are included in reinsurance recoverables. The excess of estimated liabilities for claims and claim costs over the consideration paid net of experience adjustments is established as a deferred credit at inception. The periodic amortization is reflected in the accompanying statements of income through benefits, claims and claim adjustment expenses. In transactions where the consideration paid exceeds the estimated liabilities for claims and claim costs a loss is recognized. If the adverse development net of experience adjustments exceeds the original loss, deferred gains are recorded. The deferred gains are subsequently recognized into earnings over the expected settlement period of the reserves.

Amounts recoverable from reinsurers include unpaid losses estimated in a manner consistent with the claim liabilities associated with the reinsured business. The Company evaluates reinsurance collectability, and a provision for uncollectible reinsurance is recorded.

21 Insurance liabilities and reinsurance assets *continued*

(c) Movement in insurance liabilities and reinsurance assets

			2018			2017
Year ended 31 December	**Gross £000**	**Reinsurance £000**	**Net £000**	Gross £000	Reinsurance £000	Net £000
Total at the beginning of the year	**(587,108)**	**311,031**	**(276,077)**	(530,113)	284,841	(245,272)
Claims and claim adjustment expenses for the year	**(291,176)**	**118,357**	**(172,819)**	(248,825)	94,284	(154,541)
Claims paid for claims settled in the year	**233,475**	**(76,604)**	**156,871**	196,148	(68,662)	127,486
Exchange differences and other movements	**(4,463)**	**1,476**	**(2,987)**	(4,318)	568	(3,750)
Total at end of year	**(649,272)**	**354,260**	**(295,012)**	(587,108)	311,031	(276,077)
Claims reported and loss adjustment expenses	**(329,613)**	**134,725**	**(194,888)**	(291,376)	117,080	(174,296)
Claims incurred but not reported	**(319,659)**	**219,535**	**(100,124)**	(295,732)	193,951	(101,781)
Total at end of year	**(649,272)**	**354,260**	**(295,012)**	(587,108)	311,031	(276,077)
Current year claims and loss adjustment expenses	**(378,350)**	**163,073**	**(215,277)**	(341,920)	138,483	(203,437)
(Under) / over provision in respect of prior year claims and claim adjustment expenses	**87,813**	**(44,717)**	**42,456**	93,095	(44,199)	48,896
Total claims and claims handling expenses	**(291,177)**	**118,356**	**(172,821)**	(248,825)	94,284	(154,541)

22 Dividends

The aggregated amounts of dividends comprises:

	2018 £000	2017 £000
Interim dividend paid in respect of 2018	**35,000**	-
Final dividend paid in respect of previous year	-	40,000

The Board declared an interim dividend of £35,000 thousands (2017: £nil). The Board did not declare a final dividend in 2018 (2017: £40,000 thousands).

Interim dividend per share was 50p (2017: £nil). Final dividend paid per share in respect of previous year was nil (2017: 57.1p).

23 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 was in compliance with these requirements during the year.

The Company has arranged a Letter of Credit facility of £50 thousands (2017: £50 thousands) with NatWest Bank to support its consortium activities with Lloyd's. No drawn down occurred in 2018 (2017: £nil).

24 Related party transactions

Hiscox Underwriting Limited 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 Hiscox Insurance Company Limited, 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 Hiscox Underwriting Limited. Global Flying Insurance Services, Insurex Expo-Sure and RH Classics are trading names of Hiscox Underwriting Limited. Any business placed with Hiscox Insurance Company Limited is on an arm's length basis.

Hiscox Insurance Company (Bermuda) Limited is a Class 4 insurer in Bermuda. Hiscox Insurance Company (Bermuda) Limited supplies some risk modelling services to Hiscox Insurance Company Limited. Hiscox Insurance Company Limited purchases some reinsurance from Hiscox Insurance Company (Bermuda) Limited; such reinsurances are on an arm's length basis.

Construction Guarantee Underwriters Limited is an Irish-authorised non-life insurance intermediary 26% owned by the Hiscox Group. It currently places business with Hiscox Insurance Company Limited. It is not obliged to place business with any particular carrier and these arrangements are subject to review from time to time by Construction Guarantee Underwriters.

Hiscox Underwriting Services Limited is an FCA-authorised non-life insurance intermediary, 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 Hiscox Insurance Company Limited, 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 Hiscox Underwriting Services Limited. Any business placed with Hiscox Insurance Company Limited is on an arm's length basis.

Hiscox Underwriting Group Services Limited 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 use of its services.

The Hiscox Group owns a 35% holding in Media Insurance Brokers International Limited, an FCA authorised non-life insurance intermediary which currently places business with various carriers. It is not obliged to place business with any particular carrier and these arrangements are subject to review from time to time by Media Insurance Brokers International Limited. The risks placed with Hiscox Insurance Company Limited are placed on an arm's length basis.

24 Related party transactions *continued*

Hiscox Europe Underwriting Limited 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 Hiscox Insurance Company Limited, 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 Hiscox Europe Underwriting Limited. Any business placed with Hiscox Insurance Company Limited is on an arm's length basis.

Following the Part VII transfer taken place from the Company and Hiscox S.A., Hiscox Europe Underwriting Limited was merged into the latter under a European Union Cross Border Merger, combining the Group's European insurance intermediary and risk carrier operation on 1 January 2019.

The Hiscox Group owns 100% holding in Applewell Limited an insurance broker specialising in events business.

The Hiscox Group also includes a number of intermediate holding companies and non-active companies.

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

Balance sheet assets and (liabilities) outstanding relating to related Group companies	**2018 £000**	2017 £000
Assets:		
Subsidiaries	**2,527**	2,527
Fellow Group Companies	**219,841**	216,970
Total assets	**222,368**	219,497
Liabilities:		
Subsidiaries	**(2,552)**	(2,516)
Fellow Group Companies	**(112,367)**	(94,730)
Total liabilities	**(114,918)**	(97,246)

Net income and (expenses) reflected in the profit and loss relating to related Group companies	**2018 £000**	2017 £000
Fellow Group Companies	**(327,770)**	(288,698)
Total	**(327,770)**	(288,698)

(i) Reinsurance transactions

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

	2018 £000	2017 £000
Reinsurance assets	**376,960**	362,629
Reinsurance liabilities	**58,798**	57,351

(ii) Services provided by related parties

Included in administration expenses is a management charge from Hiscox Underwriting Group Services Limited of £125,423 thousands (2017: £100,351 thousands) relating to day to day operational expenses.

25 Assets held for distribution to owners

In response to the UK's decision to leave the European Union, Hiscox Group made some necessary changes to its business. These will ensure continuity of cover and settlement of existing claims to all its customers with European risks, so that it can continue to service its policyholders and claimants across Europe post-Brexit.

To make these changes the Group used a legal insurance business transfer process known as a Part VII transfer to novate insurance contracts covering EU risks and written by Hiscox Insurance Company Limited prior to Brexit to Hiscox SA, the Group's European carrier based in Luxembourg.

The Part VII process is governed by the Part VII of the Financial Services and Markets Act 2000 and is subject to the approval of the High Court of England and Wales and the Royal Court of Jersey. These approvals have been received and became effective on 1 January 2019, which means the Part VII transfer has taken place. The Part VII transfer moved Hiscox Insurance Company Limited's outstanding insurance liabilities related to EEA customers as well as those from non-EEA customers with EEA exposures, to Hiscox SA on a book value basis. The net insurance liabilities of £129 million and an equal amount of assets comprised of euro bonds and investment funds have been transferred to Hiscox SA. Hence there are no gains or losses arisen from this transfer. The potential tax charge of this Part VII transfer has yet to be fully assessed by the Company and will be fully disclosed in 2019. Following the approval of Part VII, the Company classified these assets and liabilities as held for distribution to owners.

The below tables include a description of both assets and liabilities held for distribution to owners as at balance sheet date.

2018 **£000**	Assets held for distribution to owners	Assets not held for distribution to owners	Total assets
Assets			
Investments	-	2,527	2,527
Deferred acquisition costs	42,350	48,028	90,378
Financial assets carried at fair value	128,581	411,268	539,849
Reinsurance assets	178,063	339,049	517,112
Loans and receivables including insurance	45,070	208,813	253,883
Current tax asset	-	7,237	7,237
Cash and cash equivalents	-	41,720	41,720
Total assets	**394,064**	**1,058,642**	**1,452,706**

2018 **£000**	Equity and liabilities held for distribution to owners	Equity and liabilities not held for distribution to owners	Total equity and liabilities
Equity	-	210,011	210,011
Liabilities			
Deferred tax liabilities	-	2,960	2,960
Financial liabilities	-	21	21
Insurance liabilities	354,518	636,538	991,056
Current tax liability	-	1,313	1,313
Trade and other payables	39,546	207,799	247,345
Total equity and liabilities held for distribution to owners	**394,064**	**1,058,642**	**1,452,706**