Registered Number: 2858319

HISCOX

HISCOX DEDICATED CORPORATE MEMBER LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2019

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COMPANY INFORMATION

Directors

R S Childs
H A Hussain
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T D Shewry

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Registered Auditor

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STRATEGIC REPORT

The Directors present their strategic report, Directors' report and financial statements for the year ended 31 December 2019, which have been prepared in accordance with International Financial Reporting Standards (IFRSs).

The Company is a Lloyd's Corporate Name investing in the underwriting capacity of syndicates in the Lloyd's of London market. The Company has continued to follow the strategy of participating on only Syndicates 33 and 3624, which are managed by Hiscox Syndicates Limited, with the intention of generating profits without endangering the capital of the Company. Syndicate 33 is one of the largest composite syndicates at Lloyd's and has an A.M. Best Syndicate rating of A (Excellent). Syndicate 3624, which receives only capacity from this Company, commenced underwriting on 1 January 2009. The principal activity of both Syndicates 33 and 3624 remains the transaction of general insurance and reinsurance business.

Lloyd's has an A (Excellent) rating from A.M. Best, an A+ (Strong) rating from Standard & Poor's and an AA- (Very strong) rating from Fitch. Both syndicates benefit from the Lloyd's brand and chain of security.

The Company provides capacity on the following Syndicates to underwrite at Lloyd's of London:

Year of account	**2016**	**2017**	**2018**	**2019**	**2020**
Syndicate 33 (£m)	725	834	1,161	1,015	1,233
Syndicate 33 ($m)*	960	1,104	1,538	1,344	1,633
Syndicate 3624 (£m)	400	460	400	360	400
Syndicate 3624 ($m)*	530	609	530	477	530
Total (£m)	**1,125**	**1,294**	**1,561**	**1,375**	**1,633**
Total ($m)*	**1,490**	**1,714**	**2,067**	**1,821**	**2,163**

* Converted at the closing rate at 31 December 2019

Principal risks and uncertainties

The Company's primary source of income is derived from its participation in the underwriting activities of Syndicates 33 and 3624. The Company also receives investment income on assets held in trust by Lloyd's. The principal risks and uncertainties of this business are detailed in Note 3 and include: underwriting risk, reserving risk, financial risk, credit risk and operational risk.

Key performance indicators

We consider that the key financial performance indicators (KPIs) are those that communicate the underwriting performance of the Company to the shareholders. The KPIs comprise:

	2019	2018	Movement
	$000	$000	$000
Gross premium written	**1,891,815**	1,794,698	**97,117**
Gross premium earned	**1,889,749**	1,801,097	**88,652**
Net premium earned	**646,944**	638,642	**8,302**
Profit for the financial year	**4,976**	34,345	**(29,369)**
	2019	2018	change
Claims ratio	**47%**	32%	**15%**
Commission ratio	**53%**	54%	**(1)%**
Expense ratio	**6%**	7%	**(1)%**
Combined ratio	**106%**	94%	**13%**

The claims ratio is calculated as claims and net foreign exchange gains/(losses) over net premium earned. The commission ratio is calculated as acquisition costs over net premium earned. The expense ratio is calculated as admistration and other expenses over net premium earned. The combined ratio is the sum of the claims ratio, the commission ratio and the expense ratio.

The historic performance of each year of account the Company participated on, at the point of closure is shown below:

Return on capacity	**2013 Year of account**	**2014 Year of account**	**2015 Year of account**	**2016 Year of account**	**2017 Year of account**
	%	%	%	%	%
Syndicate 33	17	17	18	7	0
Syndicate 3624	6	4	2	(9)	(9)

Result for the year

The profit after taxation for the year ended 31 December 2019 was $4,976,000 (2018: profit of $34,345,000). No dividend was paid during 2019 (2018: $95,470,000). The shareholders' equity is $209,487,000 (2018: $204,511,000). The lower than prior year performance is driven by the 2019 financial loss in both Syndicate 33 and Syndicate 3624. The Company's share of the Syndicate loss is reduced through the quota share in place with Hiscox Capital Limited and the Company's own profits achieved through positive investment return.

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

The Board of Directors of the Company both individually and collectively act in the way they consider in good faith would be most likely to promote the success of the Company for the benefit of its members as a whole (having regard to the stakeholders and considerations set out in s172 (1) (a-f) of the Act). In decisions taken to the year ended 31st December 2019, we would reference our approach to the business plan and the supporting control environment which deliver good outcomes for the Company and wider stakeholders. In achieving this, the following areas are highlighted:

a) Our Company's plan was designed to have a long term beneficial impact on the Company and to contribute to the success in delivering the business of an insurance holding Company. We continue to operate our business within a structured control environment. Hiscox values reiterate this longer term perspective with the desire to build a business that lasts and that everyone is proud to be part of.

b) All employees are employed by Hiscox Underwriting Group Services Ltd ("HUGS"). Hiscox wants to build teams that are as diverse as our customers and create a vibrant work environment where all employees can thrive. Steps are in place for workforce engagement, training and development, employee networks, regular communication updates, launch events for major projects and partners' events. In 2019, we became a Living Wage employer in the UK. Hiscox values reiterate that our growth and success has been built on team work, having shared goals and celebrating together when things go well and supporting each other when they do not go well.

c) Time is taken to get to know the people we work with and work for – our customers. Throughout the Hiscox Group, we think about the implications of our decisions on everyone else in our Group, our industry and our community, because we are committed to building a sustainable business with a legacy we can all be proud of. Our success depends on our relationships with a network of experts beyond our business. All of our activities are informed by appropriate engagement with stakeholders to gain an understanding of our operating environment and the market in which we operate. We value our suppliers and have a Group Prompt Payment Policy which states our intention to pay what we owe, when it is owed.

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

d) Our plan takes into account the impact of the Company's operations on the community, the environment and wider societal responsibilities. As a key company within Hiscox, we are part of the Hiscox Economic, Social and Governance (ESG) approach framework and this ensures that we play a responsible part in society and our customers and society benefit when times are tough. Like others, we are responding to a changing climate, and are helping our customers and business partners to adapt through our products and services. We also evolve as regulation changes and public interest in emerging issues grows. ESG issues touch many different parts of our business – such as HR, risk, finance, underwriting, investments - and the ESG framework we have developed helps us stay focussed and make an impact. It ensures we are pragmatic and consistent, teaming Group-wide themes with local market relevance. Our ESG efforts are measured both internally and externally. Externally, we participate in a number of key ESG indices including CDP and FTSE4Good, and we reported against TCFD-aligned principles for the first time in our 2019 climate report.

e) The Board of Directors' intention is to behave responsibly and ensure that the business operates in a responsible manner with the high standards of business conduct and good governance. There is a clear policy in place for whistleblowing and this ensures that employees feel empowered to raise concerns in confidence and without fear of unfair treatment.

f) We aim to act fairly between members however note that the Company has a sole shareholder.

On behalf of the Board

H A Hussain
Director
29th May 2020

Directors

The names of the directors of the Company during the period and to the date of this report are listed on page 2 of these financial statements. None of the Directors of the Company who served during the year ended 31 December 2019 were underwriting Names at Lloyd's for 2017, 2018, 2019 or 2020 years of accounts.

The directors have no interests in the shares of the Company, nor in any shares of any other Group company other than in the ultimate parent company, Hiscox Ltd.

Dividend

The Company did not declare or pay dividend during the year (2018: $95,467,000).

Disclosure of information to auditors

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Going concern

After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

Through the Company's participation on the syndicates and hence its share of insurance reserves, it will face exposures to Covid-19. However, the Directors have a reasonable expectation that this will not materially affect the Company's ability to continue trading. Both Syndicate 33 and 3624 have completed an assessment of their potential exposure to insurance losses as a result of Covid-19 (see Note 27). It is possible that the liquidity of the syndicates could be affected by delays in processing insurance data caused by the lockdowns in place in many countries. However, Syndicates 33 and 3624 both enter the second quarter of 2020 with very strong liquidity positions. Management has already taken actions to ensure the focus on liquidity is maintained. At a Group level, as part of its Covid-19 strategic response, a separate Finance, Liquidity and Capital workstream has been set up, chaired by the Group CFO and including the Legal Entities and Divisional CFOs, Treasurer, Head of Capital, Chief Actuary and Chief Risk Officer. This group will co-ordinate all capital and liquidity activities across the Hiscox Group. Measures have also been taken to tighten credit control procedures and to strengthen underwriting controls in the current climate.

The Company's cash resources are also managed within the Group framework. Working capital forecasts, which have been prepared for the Group as part of its 3 year operating plan and have been updated for the impact of Covid-19, demonstrate that the Group has sufficient resources to continue in operational existence for the foreseeable future.

As described in note 26, the Company and its reinsurer Hiscox Capital Ltd (HCL) provide assets under a Security and Trust Deed, charged to Lloyd's of London, to meet any liabilities they incur from their interest in Syndicates 33 and 3624. This is known as Funds at Lloyd's (FAL) and as at 31 December 2019, FAL assets held by the Company were valued at $449 milllion. There are two main factors impacting the valuation of FAL as a result of Covid-19: market risk and the impact on estimated losses (see Note 27). Market risk is a result of significant volatility seen in investment markets. It is also expected that Covid-19 losses will impact our FAL by increasing the funds required to be held at Lloyd's in order to match the increase in liabilities.

It is expected that the Company will be required to make an injection into FAL in the second quarter of 2020. The Hiscox Group and the company are committed to funding this as required.

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 2019 and at the date of this report.

Political and Charitable Contributions

The Company made no political contributions during the year (2018: $nil) and no charitable donations.

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.

Business relationships

We have a diverse range of stakeholders which engagement is critical to our continued success. We engage with, consider and respond to our stakeholders needs at various levels and as part of the Hiscox Group. Our success depends on our relationships with a network of experts beyond our business. Our business relationships can be seen via the core themes in the Hiscox Environmental, Social and Governance Framework.

Environmental – We careful manage our environmental impact and work with our customers, suppliers and business partners to respond to the changing climate. For Hiscox, this means looking at our operations and how we can reduce waste – water, electricity and other consumption helped by global network of green teams. It also means investing in areas such as research, catastrophe modelling and new technologies that improve our underwriting capabilities and benefit our brokers and customers.

Social – We strive to be a good employer, a trusted insurer and a good corporate citizen, recognising that there is not a 'one-size-fits-all' solution to such matters; no claim, person or plight is the same as another. We take our role in the world seriously and so our claims philosophy, our strategy for charitable giving and our employment practices all contribute to our social narrative. Hiscox's charitable foundation – The Hiscox Foundation – has been in place since 1987, along with Hiscox Gives which creates meaningful volunteering opportunities for employees.

Governance – Good governance practices are essential to our day-to-day business of serving customers and paying claims. Good governance encompasses not just having the appropriate internal controls, policies and procedures, and structures and oversight; it also requires our employees to be accountable for their actions and empowered to raise their hand if something goes wrong. Naturally it also means complying with the laws and regulations that are relevant to our Company.

Independent Auditors

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and PricewaterhouseCoopers LLP will therefore continue in office.

Future Developments

Syndicates 33 and 3624 will continue to transact insurance business and HDCM will continue to be the Corporate member.

On behalf of the board

H A Hussain
Director
29th May 2020

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

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

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.

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.

Report on the audit of the financial statements

Opinion

In our opinion, Hiscox Dedicated Corporate Member Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 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 Statement of financial position as at 31 December 2019; the Statement of profit or loss, the Statement of cash flows, the Statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you where:

- 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.

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.

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 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities in respect of the financial statements set out on page 8, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:
- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Paul Pannell (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP,
Chartered Accountants and Statutory Auditors
London
29th May 2020

STATEMENT OF PROFIT AND LOSS

For the year ended 31 December 2019

	Notes	2019 $000	2018 $000
Income			
Gross premiums written		**1,891,815**	1,794,698
Outward reinsurance premiums		**(1,269,483)**	(1,165,276)
Net premiums written		**622,332**	629,422
Gross premiums earned		**1,889,749**	1,801,097
Premiums ceded to reinsurers		**(1,242,805)**	(1,162,455)
Net premiums earned		**646,944**	638,642
Investment result	6	**49,776**	7,118
Total income		**696,720**	645,760
Expenses			
Claims and claim adjustment expenses, net of reinsurance	22	**(307,025)**	(207,860)
Expenses for the acquisition of insurance contracts	5	**(343,881)**	(347,269)
Administration expenses	5	**(39,481)**	(45,447)
Other expenses	5	**(941)**	(805)
Net foreign exchange gains	5	**193**	1,030
Total expenses		**(691,135)**	(600,351)
Results of operating activities		**5,585**	45,409
Finance costs	5	**(495)**	(300)
Profit before tax		**5,090**	45,109
Tax expense	8	**(114)**	(10,764)
Profit for the year (all attributable to owners of the Company)		**4,976**	34,345

All of the operations of the Company are continuing.

There are no recognised gains or losses in the accounting period other than those dealt with in the statement of profit and loss, therefore no statement of other comprehensive income has been presented.

The notes on pages 16 to 48 form an integral part of this document.

STATEMENT OF FINANCIAL POSITION

At 31 December 2019

	Notes	2019 $000	Restated* 2018 $000
Assets			
Intangible assets	9	**33,082**	33,082
Deferred tax	16	**8,464**	-
Current tax		**17**	167
Deferred acquisition costs	10	**246,544**	258,496
Financial assets carried at fair value	11	**2,102,753**	1,927,541
Reinsurance assets	17	**3,229,348**	2,690,909
Financial assets at amortised cost including insurance receivables	12	**657,600**	578,200
Cash and cash equivalents	13	**208,270**	235,806
Total assets		**6,486,078**	5,724,201
Equity and liabilities			
Shareholders' equity			
Share capital	14	**2,025**	2,025
Foreign currency reserve	15	**22,049**	22,049
Retained earnings		**185,413**	180,437
Total equity (all attributable to owners of the Company)		**209,487**	204,511
Deferred tax	16	**-**	2,535
Insurance liabilities	17, 21	**4,254,077**	3,673,964
Financial liabilities at amortised cost	19	**1,991,794**	1,804,642
Tax liabilities	18	**30,720**	38,549
Total liabilities		**6,276,591**	5,519,690
Total equity and liabilities		**6,486,078**	5,724,201

*See note 2.2

The notes on pages 16 to 48 form an integral part of this document.

The financial statements were approved by the Board of Directors, who authorised them to be signed on its behalf on 29th May 2020 by:

H A Hussain
Director

Hiscox Dedicated Corporate Member Limited
Registered number 2858319

HISCOX DEDICATED CORPORATE MEMBER LIMITED

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	Notes	Share capital $000	Retained earnings $000	Foreign currency reserve $000	Total equity $000
Balance at 1 January 2018		2,025	241,559	22,049	265,633
Profit / (loss) for the year (all attributable to the owners of the company)		-	34,345	-	34,345
Total recognised other comprehensive income / (expense) for the year		-	-	-	-
Dividends paid to owners of the company	23	-	(95,467)	-	(95,467)
Balance at 31 December 2018		**2,025**	**180,437**	**22,049**	**204,511**
Balance at 1 January 2019		**2,025**	**180,437**	**22,049**	**204,511**
Profit / (loss) for the year (all attributable to the owners of the company)		-	**4,976**	-	**4,976**
Total recognised other comprehensive income / (expense) for the year		-	-	-	-
Dividends paid to owners of the company	23	-	-	-	-
Balance at 31 December 2019		**2,025**	**185,413**	**22,049**	**209,487**

The notes on pages 16 to 48 form an integral part of this document.

STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	Notes	2019 $000	Restated* 2018 $000
Profit before tax		**5,090**	45,109
Adjustments for:			
Net foreign exchange gains		**193**	1,030
Interest and investment income		**(25,535)**	(17,930)
Net fair value gains/(losses) on financial investments		**24,241**	(10,812)
Effect of exchange rate fluctuation on cash presented separately		**697**	-
Non-cash movements in foreign currency reserves		**-**	-
Foreign exchange movements on intangible assets		**-**	-
Finance charges		**495**	300
Changes in operational assets and liabilities:			
Deferred acquisition costs		**11,952**	226
Insurance and reinsurance contracts		**41,674**	(31,636)
Financial assets carried at fair value		**(199,453)**	198,288
Other assets and liabilities		**58,371**	(89,698)
Tax asset		**(17)**	(167)
Tax liabilities		**30,720**	38,549
Cash flows from operations		**(51,572)**	133,259
Interest paid/ (received)		**25,535**	17,929
Current tax paid		**(114)**	(10,764)
Net cash flows from operating activities		**(26,151)**	140,424
Net cash flows from investing activities		**-**	-
Finance charges		**(495)**	(300)
Distributions made to owners of the company		**-**	(95,467)
Net cash flows from financing activities		**(495)**	(95,767)
Net increase/ (decrease) in cash and cash equivalents		**(26,646)**	44,657
Cash and cash equivalents at 1 January		**235,806**	192,179
Net (decrease)/increase in cash and cash equivalents		**(26,646)**	44,657
Effect of exchange rate fluctuations on cash and cash equivalents		**(890)**	(1,030)
Cash and cash equivalents at 31 December	13	**208,270**	235,806

*See note 2.2

The notes on pages 16 to 48 form an integral part of this document.

The purchase, maturity and disposal of financial assets are part of the Company's insurance activities and are therefore classified as an operating cashflow.

A significant proportion of the transactions including dividend and tax payments are settled via intercompany balances and as such, the movements in the balances are classified as changes in operational assets and liabilities.

All cash and cash equivalents held by the Company are not available for immediate use by the Company outside of the Lloyd's syndicates within which they are held and Funds at Lloyd's.

1. General information and statement of compliance

1.1 General information

Hiscox Dedicated Corporate Member Limited (the Company) is a private company, limited by shares, and registered in England and Wales under the Companies Act 2006. For the period under review the Company's operations and principal activities are investing in the underwriting capacity of syndicates in the Lloyd's of London market.

In view of the several but not joint liability of underwriting members at Lloyd's for the transactions of syndicates in which they participate, the Company's attributable share of the transactions, assets and liabilities of the syndicates the Company participates on have been included in the financial statements.

1.2 Statement of compliance

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

Since 2002, the standards adopted by the International Accounting Standards Board (IASB) have been referred to as IFRS. The standards from prior years continue to bear the title 'International Accounting Standards' (IAS). Insofar as a particular standard is not explicitly referred to, the two terms are used in these financial statements synonymously. Compliance with IFRS includes the adoption of interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC).

The Company currently applies IFRS 4 Insurance Contracts which specifies the financial reporting for insurance contracts. The standard was issued by the IASB as the first phase in their project to develop a comprehensive standard for insurance contracts. Accordingly, to the extent that IFRS 4 does not specify the recognition or measurement of insurance contracts, transactions reported in these financial statements have been prepared in accordance with another comprehensive body of accounting principles for insurance contracts, namely accounting principles generally accepted in the UK.

2. Significant accounting policies

2.1. Basis of preparation

The financial statements are presented in US Dollars and are rounded to the nearest thousand unless otherwise stated. In 2018, the company's presentation currency changed from Sterling to US Dollars. Given that a significant majority of the company's earnings are denominated in US Dollars, a US Dollars presentation currency gives users of these financial statements a clearer understanding of financial performance and financial position and stability over time. 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 statement of financial position of the Company is presented in order of increasing liquidity. The accounting policies have been applied consistently to all periods presented.

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 2019. They have been applied in preparing these financial statements. There were no new standards, amendments or interpretations that had a material impact on the company.

The new standards and interpretation include:

–IFRS 16 Leases replaces IAS 17 Leases and sets out the principles for the recognition, measurement, presentation and disclosure of leases. The adoption of this standard does not have an impact on the Company's financial statements as it has not entered into any lease agreement.

– IFRIC Interpretation 23 Uncertainty over Income Tax Treatment clarifies the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 Income Taxes. The adoption of this standard does not have an impact on the Company's financial statements on the basis that no tax treatments have been adopted where it is probable that there is uncertainty around the outcome.

2. Significant accounting policies *continued*

2.1. Basis of preparation *continued*

The following new standards and, amendments to standards, that are relevant for the Company are effective for annual periods beginning after 1 January 2020 and have not been applied in preparing these financial statements:

–IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: The changes relate to the definition of "material". Information is material if omitting, misstating, or obscuring it could reasonably be expected to influence decisions that the primary users of financial statements make on the basis of these financial statements. The amendments to the definition of material is not expected to have a significant impact on the Company's financial statements.

–IFRS 3 Business Combinations: The amendments clarify the minimum requirements to be a business and are intended to help determine whether a transaction should be accounted for as a business combination or an asset acquisition. Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Company will not be affected by these amendments on the date of transition.

2.2. Changes to comparative amounts

Following a review of the Company's presentation of tax balances, adjustments to previous reported amounts on the balance sheet have been identified and comparative amounts have been restated. There has been no impact on the income statement or statement of changes in equity for any of the periods presented.

An amount of $38.5 million related to the Company's tax liability was presented as part of amounts owed to intermediate holding company (financial liabilities at amortised cost). As the amount has not been settled by Hiscox Plc. with the UK tax authority at the balance sheet date, the amount has been reclassified to and presented as tax liabilities.

The impact on the balance sheet:

	Financial Year 2018			Financial Year 2017		
Balance Sheet	As reported previously	Effect of prior period adjustments at 31 December 2018	Restated	As reported previously	Effect of prior period adjustments at 1st January 2018	Restated
	$000	$000	$000	$000	$000	$000
Total assets						
Current tax		167	167		4,784	
Total liabilities						
Effect analysed adjustments to:						
Financial liabilities at amortised cost	1,843,024	(38,381)	1,804,643	1,877,375	(40,609)	1,836,766
Current tax	-	38,549	38,549	-	45,393	45,393
Total equity	(1,843,024)	0	(1,843,024)	(1,877,375)	-	(1,882,159)

The impact on the cash flow statement:

	Financial Year 2018			Financial Year 2017		
Cash Flow	As reported previously	Effect of prior period adjustments at 31 December 2018	Restated	As reported previously	Effect of prior period adjustments at 1st January 2018	Restated
	$000	$000	$000	$000	$000	$000
Effect analysed adjustments to:						
Other assets and liabilities	(51,317)	(38,381)	(89,698)	26,381	(40,609)	(66,990)
Current tax asset		(167)	(167)		(4,784)	(4,784)
Current tax liability	-	38,549	38,549	-	45,393	45,393

2. **Significant accounting policies** *continued*

2.3. Insurance contracts

2.3.1. Classification

The Company issues short-term casualty and property insurance contracts that transfer significant insurance risk.

2.3.2. Recognition and measurement

Written gross and outwards reinsurance premiums comprise premiums on contracts incepting during the financial year. Written premiums are disclosed gross of commission payable to intermediaries and exclude taxes and duties levied on premiums.

Premium written include an estimate of gross premiums written during the year that have not yet been notified by the financial year-end (pipeline premiums).

Outwards reinsurance premiums are also disclosed gross of commissions and profit participations recoverable from reinsurers.

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 date of the statement of financial position 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 estimated using the input of assessments for individual cases reported to the Company and statistical analysis for the claims incurred but not reported, and an estimate of the expected ultimate cost of more complex claims that may be affected by external factors e.g. court decisions.

2.3.3. 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 policies as premium is earned.

2.3.4. Liability adequacy test

At the date of the statement of financial position, 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 immediately 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.

2.3.5. 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 or reinsurance 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 as reinsurance assets. These assets consist of short-term balances due from reinsurers (classified within financial assets at amortised cost) as well as longer-term receivables (classified as reinsurance assets) that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts.

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.

2. **Significant accounting policies** *continued*

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 statement of profit and loss.

Within the financial statements, the reinsurance to close of underwriting years on syndicates has been treated as the extinguishment of a liability. Whilst IFRS requires assets and liabilities to be presented gross, the directors have chosen to present reinsurance to close as the extinguishment of the insurance liability in accordance with market practice.

2.3.6.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 profit and loss.

2.3.7.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.

2.4. Revenue

Revenue comprises insurance and reinsurance premiums earned on the rendering of insurance protection, net of outwards reinsurance, together with profit commission, investment returns and other income inclusive of foreign exchange gains on instruments not formally designated for hedge accounting treatment. The accounting policies for insurance premiums are outlined above. 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.

2.5. Intangible assets - syndicate capacity

The cost of purchasing the Company's participation in Lloyd's insurance Syndicate 33 is not amortised but is tested annually for impairment and is carried at cost less accumulated impairment losses. Having considered the future prospects of the London insurance market, the Board believes that the Company's ownership of syndicate capacity will provide economic benefits over an indefinite number of future periods. This assumption is reviewed annually to determine whether the asset continues to have an indefinite life.

The Company's intangible asset relating to syndicate capacity has been allocated, for impairment testing purposes to one individual cash generating unit. The Company has considered the asset's recoverability on a value in use basis. This calculation uses cash flow projections based on financial forecasts approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated based on an average level of return and annual growth consistent with the industry long-term average. A pre-tax discount factor has been applied to projected cash flows as part of the exercise. The results of this exercise indicate that the recoverable amount exceeds the intangible's carrying value on the statement of financial position. The carrying value on a Pence per Pound of capacity basis, on the statement of financial position is also below the average open market price of Syndicate 33 capacity, witnessed in the recent Lloyd's of London capacity auctions in Autumn 2019.

2.6. Dividend distribution

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

2. **Significant accounting policies** *continued*

2.7. Financial assets

The Company has classified financial assets as

a) financial assets designated at fair value through profit or loss, and

b) financial assets at amortised cost.

Management determines the classification of its financial investments at initial recognition. The decision by the Company to designate all financial investments, comprising 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. Regular 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 are measured as described below. Financial assets are de-recognised 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 statement of profit and loss.

2.8. 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.

2.9. Financial assets at amortised cost

Financial assets at amortised cost 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 such assets. Financial assets at amortised cost are carried at amortised cost less any provision for impairment in value.

2.10. 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.

2.11. 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.

2. **Significant accounting policies** *continued*

2.11.1 Non-financial assets

Objective factors that are considered when determining whether a non-financial asset such as an intangible 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 markets to which the asset is related.

2.11.2 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 security issuers, reinsurers and debtors;
- significant reported financial difficulties of security issuers, reinsurers and debtors;
- actual breaches of credit terms such as persistent late payments or actual default;
- the disintegration of the active markets 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.

2.11.3 Impairment loss

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

Where an impairment loss 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.

2.12. Share Capital

Shares are classified as equity when there is no obligation to transfer cash or assets and results in the equity holder having a residual interest in the Company's net assets. Dividends are reflected in the financial statements once the dividend is formally declared.

2.13. Functional currency and presentational currency

Items included in the financial statements of each of the syndicates are measured using the currency of the primary economic environment in which the syndicate operates (the 'functional currency'). With effect from the 1 January 2018 Syndicate 33 changed its functional currency from Sterling to US Dollars. This is as a result of the managing agent, Hiscox Syndicates Limited, changing its functional currency from Pound Sterling to US Dollar. The functional currency of HDCM also changed from Sterling to US Dollars on the same date. This is as a result of the quota share, with Hiscox Capital Limited, changing the settlement currency of the contract to US Dollar.

2. **Significant accounting policies** *continued*

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 on the original transaction date. Non-monetary items measured at fair value are translated using the exchange rate ruling when the fair value was determined.

2.14. Pension recharge

The Hiscox Group operates a defined benefit pension scheme and a defined contribution pension scheme. The accrual of benefit for active members of the defined benefit scheme ceased on 31 December 2006. Syndicate 33 is charged a contribution in the form of a recharge, this amount is not necessarily the whole of any surplus or deficit on the defined benefit scheme. Subsequently the Company presents this charge within administrative expenses.

2.15. Current and deferred tax

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 by the date of the statement of financial position.

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 date of the statement of financial position 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.

2.16. Use of critical estimates 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, premium recognition, the valuation of current and deferred tax assets and liabilities as being most critical to an understanding of the Company's result and position.

The inherent uncertainty of insurance risk requires the Company to make estimates and assumptions that affect the reported amounts of insurance and reinsurance assets and liabilities at the date of the statement of financial position. This is the most significant area of potential uncertainty in the Company's financial statements. There are several sources of uncertainty that need to be considered in the estimation of the insurance liabilities that the Company will ultimately pay for valid claims. These include but are not restricted to: inflation; changes in legislation; changes in the Company's claims handling procedures; and discordant judicial opinions which extend the Company's coverage of risk beyond that envisaged at the time of original policy issuance. The Company seeks to gather corroborative evidence from all relevant sources before making judgements as to the eventual outcome of claims, particularly those under litigation, which have occurred and been notified to the Company, but remain unsettled at the date of the statement of financial position.

Estimates are continually evaluated based on entity specific historical experience and contemporaneous developments observed in the wider industry, and are also updated for expectations of prospective future developments. Although the possibility exists for material changes in insurance liabilities 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. Note 3.1 to financial statements provides a greater analysis of the main methods used by the Company when formulating estimates of the insurance claims liabilities at the date of the statement of financial position.

2. **Significant accounting policies** *continued*

Premium recognition:
The gross written premium is initially based on estimated premium income (EPI) of each contract. EPI estimates are based on information provided by the brokers, policyholders, coverholders, past underwriting experience and the contractual terms of the policy. The EPI estimates are reviewed on a regular basis. As the year of account closes premiums are adjusted to match the actual signed premium. Premiums in respect of insurance contracts underwritten under binding authorities are booked as the underlying contracts incept, a straight-line basis is selected for this inception pattern. Premiums are earned on a straight-line basis over the life of each contract. At a portfolio level this is considered to provide a reasonable estimate for the full year of the pattern of risk over the coverage period.

Gross written premium includes an estimation for reinstatement premiums which is determined based on incurred losses held in the technical provisions.

Taxation:
Legislation concerning the determination of taxation assets and liabilities is complex and continually evolving. In preparing the Company's financial statements, the Directors estimate current and deferred taxation assets and liabilities after taking appropriate professional advice.

The determination and finalisation of agreed current and deferred taxation assets and liabilities may not occur until several years after the date of the statement of financial position and consequently the final amounts payable or receivable may differ from those presently recorded in these financial statements.

Investments:
The Company carries its financial investments at fair value through profit and loss with fair value determined with reference to the most active financial markets in which the assets trade. During periods of economic distress and diminished liquidity, the ability to obtain quoted bid prices may be reduced and as such a greater degree of judgment is required in obtaining the most reliable source of valuation.

3. Risk review

The Hiscox Group's overall appetite for accepting and managing varying classes of risk is defined by the Group's Board. The Hiscox Group Board has developed a governance framework and has set Group-wide risk management policies and procedures which include risk identification, risk management and mitigation and risk reporting. The objective of these policies and procedures is to protect the Group's shareholders, policyholders and other stakeholders from negative events that could hinder the Group's delivery of its contractual obligations and its achievement of sustainable profitable economic and social performance.

The Company writes a balanced book of insurance and reinsurance business spread by product and geography. The Directors believe that the Company is well placed to manage its business risk and continue to trade successfully.

The majority of the risks affecting the Company result from its participation on Hiscox Syndicates 33 and 3624 (the Syndicates). Hiscox Syndicates Limited (HSL) is the managing agent for the Syndicates. Therefore a number of risks the Company faces are mitigated by governance and controls provided by HSL.

HSL has a robust governance framework in place to manage risk. The Board of HSL has delegated more detailed oversight of risk management to the HSL Risk Committee. The HSL Risk Committee is chaired by an Independent Non-Executive Director.

The HSL Risk Committee focuses on those areas where there is potential that insufficient action is being taken to mitigate risks and which may need to be escalated to the HSL Board.

The HSL Board approves the risk appetite with more detailed monitoring of exposures against the risk appetite being undertaken by the HSL Risk Committee.

In addition, the HSL Board exercises oversight of the development and operational implementation of its risk management policies and procedures, through the HSL Risk Committee, and ongoing compliance therewith, through a dedicated internal audit function, which has operational independence, a charter and clear upwards reporting structure back into the HSL Audit Committee and the HSL Board.

The Company, in common with the non-life insurance industry generally, is fundamentally driven by a desire to originate, retain and service insurance contracts to maturity. The Company's cash flows are funded mainly through advance premium collections and the timing of such premium inflows is considered to be reasonably predictable. In addition, the majority of material cash outflows are typically triggered by the occurrence of insured events non-correlated to financial markets, and not by the inclination or will of policyholders. The principal sources of risk relevant to the Company's operations and its financial statements fall into two broad categories: insurance risk and financial risk, both of which are described below.

3.1 Insurance risk

Insurance risk is transferred to the Company by contract holders through the underwriting process. The Company's exposure to insurance risk arises from the possibility that an insured event occurs, and claims subsequently submitted by the insured for payment. In common with other insurers, the Company's earnings can be affected by unpredictable events and circumstances. These may include, but are not limited to, conditions such as natural and other catastrophes, legal developments, social change and the emergence of latent risks. Such events could create significant levels of losses if the Syndicate's underwriting models, aggregation tools and policy wordings do not prevent unplanned concentrations of risk, both in geographical regions and types of policy. Robust risk management and loss mitigation techniques are employed to minimise this risk, including underwriting models, aggregation tools and policy wordings to prevent unplanned concentrations of risk.

3.1.1 Underwriting risk

Underwriting risk is defined as the risk that insurance premiums will not be sufficient to cover future insurance losses and associated expenses. Underwriting risk also encompasses people, process and system risks directly related to underwriting.

HSL Board sets each Syndicate's underwriting strategy and risk appetite, seeking to exploit identified opportunities in the light of other relevant anticipated market conditions.

3. **Risk review** *continued*

Specific underwriting objectives such as aggregation limits, reinsurance protection thresholds, geographical disaster event risk exposures and line of business diversification parameters are prepared and reviewed by the HSL management team in order to translate the HSL Board's summarised underwriting strategy into specific measurable actions and targets. These actions and targets are reviewed and approved in advance of each underwriting year. The HSL Board continually reviews its underwriting strategy throughout each underwriting year in light of evolving market pricing, loss conditions and as opportunities present themselves.

HSL's underwriters and management consider underwriting risk at an individual contract level and also from a portfolio perspective where the risks assumed in similar classes of policies are aggregated and the exposure evaluated in light of historical portfolio experience and prospective factors. To assist with the process of pricing and managing underwriting risk the Syndicates routinely perform a wide range of activities including the following:

- regularly updating the Syndicate risk models;
- documenting, monitoring and reporting on the Syndicates' strategy to manage risk;
- developing systems that facilitate the identification of emerging issues promptly;
- utilising sophisticated computer modelling tools to simulate catastrophes and measure the resultant potential losses before and after reinsurance;
- monitoring legal developments and amending the wording of policies when necessary;
- regularly aggregating risk exposures across individual underwriting portfolios and known accumulations of risk;
- examining the aggregated exposures in advance of underwriting further large risks; and
- developing processes that continually factor market intelligence into the pricing process.

The delegation of underwriting authority to specific individuals, both internally and externally, is subject to regular reviews. All underwriting staff and binding agencies are set strict parameters in relation to the levels and types of business they can underwrite, based on individual levels of experience and competence. These parameters cover areas such as maximum sums insured per insurance contract, maximum gross premiums written and maximum aggregated exposures per geographical zone and risk class. All delegations are strictly controlled through these underwriting guidelines and limits and extensive monitoring, review and auditing of the agencies.

However, as there is no absolute guarantee that an agent will comply with the terms of its authority, the Syndicates could be exposed to unanticipated losses. Other business areas where the Syndicates are to some extent reliant on the timely and effective supply of services from third parties include back office policy processing, data entry and cash collection.

The Syndicates' insurance contracts include provisions to contain losses such as the ability to impose deductibles and demand reinstatement premiums in certain cases. In addition, in order to manage the Syndicates' exposure to repeated catastrophic events, relevant policies frequently contain payment limits to cap the maximum amount payable from these insured events over the contract period.

HSL compiles estimates of losses arising from realistic disaster events using statistical models alongside input from its underwriters. These require significant management judgement. Realistic disaster scenarios are extreme hypothetical events selected to represent major events occurring in areas with large insured values. They also reflect the areas that represent significant exposure to the Company. The selection of realistic disaster scenario events is adjusted each year and they are not necessarily directly comparable from one year to the next. The events are extreme and as yet untested, and as such these estimates may prove inadequate as a result of incorrect assumptions, model deficiencies, model or losses from unmodelled risks. This means that should a realistic disaster actually eventuate, the final ultimate losses could materially differ from those events modelled by management.

3. **Risk review** *continued*

The Syndicates also manage underwriting risk by purchasing reinsurance. Reinsurance protection such as excess of loss and quota share cover is purchased at a Syndicate level to mitigate the effect of catastrophes and unexpected concentrations of risk. The scope and type of reinsurance protection purchased may change depending on the extent and competitiveness of cover available in the market. The Company is exposed to the risk that the reinsurance protection that has been bought is inadequate or inappropriate, but this is monitored and managed using modelling techniques, supervised by a dedicated reinsurance purchase group.

3.1.2 Reserving risk

Reserving risk is defined as the risk that reserves set in respect of insurance claim losses are ultimately insufficient to fully settle these claims and associated expenses. This definition also applies to reserves which have been set previously.

The Syndicates' procedures for estimating the outstanding costs of settling insured losses at the date of the statement of financial position, including claims incurred but not yet reported, are detailed in note 2.2.2.

The majority of the Syndicates' insurance risks are short tail and, based on historical claims experience, significant claims are normally notified and settled within one to two years of the insured event occurring. Those claims taking the longest time to develop and settle, typically relate to casualty risks where legal complexities occasionally develop regarding the insured's alleged omissions or negligence. The length of time required to obtain definitive legal judgements and make eventual settlements exposes the Syndicates to a degree of reserving risk in an inflationary environment.

The majority of the Syndicates' casualty exposures are written on a claims made basis. However the final quantum of these claims may not be established for a number of years after the event. Consequently a significant proportion of the casualty insurance amounts reserved on the statement of financial position may not be expected to settle within one year of the date of the statement of financial position.

Certain marine and property insurance contracts such as those relating to subsea and other energy assets, and the related business interruption risks, can also take longer than normal to settle. This is because of the length of time required for detailed subsea surveys to be carried out and damage assessments agreed together with difficulties in predicting when the assets can be brought back into full production.

The provisions are set above the actuarial mid-point to reduce the risk that actual claims exceed the amount that has been set aside.

For the inwards reinsurance lines, there is often a time lag between the establishment and re-estimation of case reserves and reporting to the Syndicates. The Syndicates work closely with the reinsured to ensure timely reporting and also centrally analyse industry loss data to verify the reported reserves. The Company purchases additional reinsurance to mitigate underwriting and reserving risk incurred in its participation on the Syndicates.

3.2 Financial risk

The Company is exposed to financial risk through its ownership of financial instruments including financial liabilities. The Company and Syndicates invest in financial assets in order to fund obligations arising from its insurance contracts and other liabilities. The key financial risk for the Syndicates is that the proceeds from its financial assets and investment result generated thereon are not sufficient to fund the obligations. The most important entity and economic variables that could influence in such an outcome are the reliability of fair values, interest rate risk, credit risk, liquidity risk and currency risk. The Company's and Syndicates' policies and procedures for managing exposure to these specific categories of risk are detailed below.

3. **Risk review** *continued*

3.2.1 Reliability of fair values

The Company and Syndicates have elected to carry all financial investments at fair value through profit or loss as they are managed and evaluated on a fair value basis in accordance with a documented strategy. All of the financial investments held by the Company and Syndicates are available to trade in markets and the Company and Syndicates therefore seek to determine fair value by reference to published prices or as derived by pricing vendors using observable quotations in the most active financial markets in which the assets trade. The fair value of financial assets is measured primarily with reference to their closing bid market prices at the date of the statement of financial position.

The ability to obtain quoted bid market prices may be reduced in periods of diminished liquidity. In addition, those quoted prices that may be available may represent an unrealistic proportion of market holdings or individual trade sizes that could not be readily available to the Company and Syndicates. In such instances fair values may be determined or partially supplemented using other observable market inputs such as prices provided by market makers such as dealers and brokers, and prices achieved in the most recent regular transaction of identical or closely related instruments occurring before the date of the statement of financial position, but updated for relevant perceived changes in market conditions.

At 31 December 2019 and 2018, the Syndicates held asset-backed and mortgage-backed fixed income instruments in their investment portfolios. Together with the Syndicates' investment managers, Management continues to monitor the potential for any adverse development associated with this investment exposure through the analysis of relevant factors such as credit ratings, collateral, subordination levels and default rates in relation to the securities held. The Company and Syndicates did not experience any material defaults on debt securities during the current or prior year.

Valuation of these securities will continue to be impacted by external market factors including default rates, rating agency actions, and liquidity. The Company and Syndicates will make adjustments to their investment portfolios as appropriate as part of their overall portfolio strategy, but their ability to mitigate risk by selling or hedging its exposures may be limited by the market environment. The Syndicates' future results may be impacted, both positively and negatively, by the valuation adjustments applied to these securities.

3.2.2 Interest rate risk

Fixed income investments represent a significant proportion of the Company and Syndicates' assets and the Directors continually monitor investment strategy to minimise the risk of a fall in the portfolio's market value which could affect the amount of business that the Syndicates are able to underwrite or its ability to settle claims as they fall due. The fair value of the Companies and Syndicates' investment portfolio of debt and fixed income securities is inversely correlated to movements in market interest rates. If market interest rates fall, the fair value of the Company's and Syndicates' debt and fixed income investments would tend to rise and vice versa. 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 Syndicate portfolio is managed to minimise the impact of interest rate risk on anticipated Syndicates cash flows. The Company portfolio is managed to maximise investment result and maintain capacity to ensure the Syndicates can continue to write business.

The Company, including through the Syndicates, hold significant portfolios of investments to support their obligations, including their insurance liabilities, and their profits depend in part upon the returns that these achieve. Changes in interest rates, equity returns and other economic variables can therefore affect financial performance. To mitigate this risk the Syndicates have detailed investment strategies that seek to minimise the concentration of investment risk in a particular issuer or sector. The majority of investment assets held are low risk, high quality, short duration debt securities and fixed term deposits.

3. **Risk review** *continued*

Table a)

Nature of debt and fixed income holdings	**31 December 2019 % weighting**	31 December 2018 % weighting
Government issued bonds and instruments	**33**	38
Government supported*	**5**	3
Asset backed securities	**0**	1
Mortgage backed instruments – Agency	**6**	2
Mortgage backed securities – Non Agency	**1**	2
Corporate bonds	**54**	54

* Includes supranational debt, agency debt and federal debt deposit insurance corporation bank bonds.

Duration is the weighted average length of time required for an instrument's cash flow stream to be recovered, where the weightings involved are based on the discounted present values of each cash flow. A closely related concept, modified duration, measures the sensitivity of the instrument's price to a change in its yield to maturity. Convexity measures the sensitivity of modified duration to changes in the yield to maturity.

One method of assessing interest rate sensitivity is through the examination of duration-convexity factors in the underlying portfolio. Using a duration-convexity based sensitivity analysis, if market interest rates had increased/decreased by 50 basis points at the date of the statement of financial position, the fair value might have been expected to decrease/(increase) by $6.8 million (2018: $12.9 million) assuming the only statement of financial position area impacted was debt and fixed income financial assets.

Insurance contract liabilities are not directly sensitive to the level of market interest rates, as they are undiscounted and contractually non-interest-bearing. The Syndicates' debt and fixed income assets are further detailed in note 11. The Syndicates have no significant borrowings carrying interest rate risk.

The market value of the Syndicates' and the Company's holdings of deposits with credit institutions are less exposed to movements in interest rates due to the very short time frame to their maturity.

3.2.3 Credit risk

The Company and Syndicates have exposure to credit risk, which is the risk that a counterparty will suffer a deterioration in solvency or be unable to pay amounts in full when due.

The concentrations of credit risk exposures held by insurers may be expected to be greater than those associated with other industries, due to the specific nature of insurance and reinsurance markets and the extent of investments held in financial markets. In both markets, the syndicates interact with a number of counterparties who are engaged in similar activities with similar customer profiles, and often in the same geographical areas and industry sectors. Consequently, as many of these counterparties are themselves exposed to similar economic characteristics, one single localised or macroeconomic change could severely disrupt the ability of a significant number of counterparties to meet the syndicates' agreed contractual terms and conditions.

Key areas of exposure to credit risk include:

- reinsurers' share of insurance liabilities;
- amounts due from reinsurers in respect of claims already paid;
- amounts due from insurance contract holders;
- amounts due from insurance intermediaries; and
- counterparty risk with respect to cash and cash equivalents, and investments and other deposits including deposits and derivative transactions.

3. **Risk review** *continued*

The Company's and Syndicates' maximum exposure to credit risk is represented by the carrying values of monetary assets and reinsurance assets included in the statement of financial position. The Syndicates structure the levels of credit risk accepted by placing limits on their exposure to a single counterparty, or groups of counterparties. Such risks are subject to an annual or more frequent review. There is no significant concentration of credit risk with respect to financial assets at amortised cost, as the Syndicates have a large number of internationally dispersed debtors with unrelated operations.

The Syndicates purchase reinsurance protection to contain exposure from single claims and the aggregation of claims from catastrophic events and to share the exposure with our reinsurance partners. If a reinsurer fails to pay a claim for any reason, the Syndicates remain liable for the payment to the policyholder. The creditworthiness of reinsurers is therefore continually reviewed throughout the year. The Syndicates' experience of bad debt losses arising from its reinsurance arrangements compares favourably with industry averages. HSL has established a reinsurance security committee which assesses and is required to approve all new reinsurers before business is placed with them.

The Syndicates also mitigate credit counterparty risk by concentrating debt and fixed income investments in high quality instruments, including a particular emphasis on government bonds and municipal agency instruments issued mainly by European Union and North American countries.

The carrying amount of financial assets and reinsurance assets represents the maximum credit risk exposed. An analysis of the Company's and Syndicates' major exposures to counterparty credit risk excluding financial assets at amortised cost, based on Standard & Poor's or equivalent rating at 31 December:

Table b)

As at 31 December 2019	**AAA**	**AA**	**A**	**BBB and below**	**Total**
	$000	**$000**	**$000**	**$000**	**$000**
Financial investments	**181,269**	**807,740**	**581,010**	**418,039**	**1,988,058**
Reinsurers share of technical provisions: claims outstanding	**221,778**	**233,613**	**2,199,065**	**25,012**	**2,679,468**
Debtors: reinsurance recoverable	**1,759**	**30,614**	**105,210**	**6,264**	**143,847**
Cash and cash equivalents	**-**	**14,357**	**193,907**	**6**	**208,270**
Total	**404,806**	**1,086,324**	**3,079,192**	**449,321**	**5,019,643**

As at 31 December 2018	AAA	AA	A	BBB and below	Total
	$000	$000	$000	$000	$000
Financial investments	203,426	738,873	471,630	435,796	1,849,725
Reinsurers share of technical provisions: claims outstanding	259,185	128,515	1,779,506	501	2,167,707
Debtors: reinsurance recoverable	4,006	13,359	66,720	29	84,114
Cash and cash equivalents	2,495	26,756	200,151	6,404	235,806
Total	469,112	907,503	2,518,007	442,730	4,337,352

The Syndicates have no material debtors arising from direct insurance and reinsurance operations that are past due and impaired at the reporting date. The Syndicates believe that impairment of these debtors is not appropriate on the basis of the stage of collection of amounts owed to the Syndicates.

The Syndicates have no financial assets that would be past due or impaired whose terms have been renegotiated.

3. **Risk review** *continued*

At 31 December 2019 the Syndicates held no material debt and fixed income assets that were past due or impaired beyond their reported fair values, either for the current period under review or on a cumulative basis (2018: $nil). For the current period and prior period, the Syndicates did not experience any material defaults on debt securities.

3.2.4 Liquidity risk

Liquidity risk arises where cash may not be available to pay obligations when due at a reasonable cost. The Syndicates are exposed to daily cash calls on their available cash resources, mostly for the settlement of claims. The Syndicates' approach is to maintain liquid assets that can be translated to cash at short notice without any significant capital loss. These funds are monitored by management on a regular basis. We have determined that the Syndicate has sufficient levels of liquidity to meet its funding requirements in all likely scenarios.

A significant proportion of investment assets held are low risk, high quality, short duration debt securities and fixed term deposits. The contractual maturity profile of investment assets at 31 December was as follows:

Table c)

As at 31 December 2019	**Within one year $000**	**Between one and three years $000**	**Between three and five years $000**	**Over five years $000**	**Total $000**
Financial assets carried at fair value (excluding equities and shares in unit trusts)	**560,415**	**1,152,080**	**131,881**	**143,682**	**1,988,058**
Cash at bank and in hand	**208,270**	**-**	**-**	**-**	**208,270**
Total	**768,685**	**1,152,080**	**131,881**	**143,682**	**2,196,328**

As at 31 December 2018	Within one year $000	Between one and three years $000	Between three and five years $000	Over five years $000	Total $000
Financial assets carried at fair value (excluding equities and shares in unit trusts)	545,238	1,110,267	99,596	94,624	1,849,725
Cash at bank and in hand	235,806	-	-	-	235,806
Total	781,044	1,110,267	99,596	94,624	2,085,531

Average contractual maturity analysed by currency of investments:

Table d)	**2019 Years**	2018 Years
Pound Sterling	**2.1**	1.4
US Dollar	**2.9**	2.3
Euro	**2.1**	1.8
Canadian Dollar	**1.9**	1.8

3. **Risk review** *continued*

3.2.4 Liquidity risk continued

The following is an analysis by business segment of the estimated timing of net cash flows based on the claims liabilities balance held at 31 December 2019 and 2018. The Syndicates do not discount claims liabilities. The estimated phasing of settlement is based on current estimates and historical trends and the actual timing of future settlement cash flows may differ materially from the disclosure below.

Table e)

As at 31 December 2019	**Within one year $000**	**Between one and three years $000**	**Between three and five years $000**	**Over five years $000**	**Total $000**
Insurance Liabilities	**(1,414,124)**	**(823,420)**	**(874,044)**	**(263,616)**	**(3,375,204)**
Reinsurance Assets	**1,091,884**	**680,789**	**704,223**	**202,571**	**2,679,467**
Net Liabilities	**(322,240)**	**(142,631)**	**(169,821)**	**(61,045)**	**(695,737)**

As at 31 December 2018	Within one year $000	Between one and three years $000	Between three and five years $000	Over five years $000	Total $000
Insurance Liabilities	(1,172,399)	(1,068,300)	(325,867)	(230,591)	(2,797,157)
Reinsurance Assets	908,572	827,898	252,536	178,701	2,167,707
Net Liabilities	(263,827)	(240,402)	(73,331)	(51,890)	(629,450)

3.2.5 Currency risk

The Company has no gross written premium, the majority of the Syndicates' gross written premium is in US Dollars, consequently movements in the Sterling against US Dollar exchange rate may have a material effect on its financial performance and position. The Syndicates' financial assets are denominated in the same currencies as its insurance liabilities, leaving the profit or loss as the main currency exposure. This profit and loss is distributed in accordance with Lloyd's rules using a combination of Sterling and US Dollars. The Company's financial assets are denominated in US Dollar and Pound Sterling which can result in exposure to foreign exchange fluctuations.

3. **Risk review** *continued*

3.2.5 *Currency risk* continued

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

Table f)

As at 31 December 2019	**Sterling $000**	**US Dollar $000**	**Euro $000**	**Canadian Dollar $000**	**Total $000**
Intangible assets	-	33,082	-	-	33,082
Deferred Tax	8,464	-	-	-	8,464
Current Tax	17				17
Deferred Acquisition Costs	8,112	222,433	10,332	5,667	246,544
Financial assets carried at fair value	332,187	1,643,050	18,872	108,644	2,102,753
Reinsurance assets	162,563	2,970,794	54,990	41,001	3,229,348
Financial assets at amortised cost including insurance receivables	170,088	481,739	(17,826)	23,599	657,600
Cash and cash equivalents	65,860	118,843	16,324	7,243	208,270
Total assets	747,291	5,469,941	82,692	186,154	6,486,078
Deferred tax	-	-	-	-	-
Insurance liabilities	321,554	3,671,376	159,044	102,103	4,254,077
Financial liabilities at amortised cost	311,769	1,623,683	29,689	26,653	1,991,794
Current Tax	30,720				30,720
Total liabilities	664,042	5,295,059	188,733	128,756	6,276,591
Net assets	83,249	174,882	(106,041)	57,398	209,487

As at 31 December 2018 Restated*	Sterling $000	US Dollar $000	Euro $000	Canadian Dollar $000	Total $000
Intangible assets	-	33,082	-	-	33,082
Deferred Tax	-	-	-	-	-
Current Tax	167				167
Deferred acquisition costs	25,123	211,818	14,497	7,058	258,496
Financial assets carried at fair value	209,586	1,556,610	64,155	97,190	1,927,541
Reinsurance assets	135,075	2,468,161	60,122	27,551	2,690,909
Financial assets at amortised cost including insurance receivables	109,380	428,906	26,224	13,691	578,200
Cash and cash equivalents	36,838	145,424	42,578	10,966	235,806
Total assets	516,169	4,844,001	207,576	156,456	5,724,201
Deferred tax	2,535	-	-	-	2,535
Insurance liabilities	261,272	3,122,212	211,253	79,227	3,673,964
Financial liabilities at amortised cost	7,710	1,739,195	43,298	14,439	1,804,643
Current Tax	38,549				38,549
Total liabilities	310,066	4,861,407	254,551	93,666	5,519,690
Net assets	206,103	(17,407)	(46,975)	62,790	204,511

*See note 2.2

3. **Risk review** *continued*

3.3 Sensitivity analysis

A 10% strengthening of the US Dollar against the following currencies at 31 December would have increased/(decreased) members balances and profit/(loss) for the financial year by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

Table g)

	31 December 2019 $000	31 December 2018 $000
Sterling	**(38,356)**	23,239
Euro	**210**	(4,698)
Canadian Dollar	**295**	6,279

A 10% weakening of the US Dollar against the following currencies at 31 December would have increased/(decreased) members balances and profit/(loss) for the financial year by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

Table h)

	31 December 2019 $000	31 December 2018 $000
Sterling	**38,356**	(23,239)
Euro	**(210)**	4,698
Canadian Dollar	**(295)**	(6,279)

3.4 Limitations of sensitivity analysis

The above tables demonstrate the impact of a change in a major input assumption while other assumptions remain unchanged. It should be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

The sensitivity analyses do not take into consideration that the company's assets and liabilities are actively managed. Additionally, the financial position of the company may vary at the time that any actual market movement occurs. For example, the company's financial risk management strategies aim to manage the exposure to market fluctuations. As investment markets move past various trigger levels, management actions could include selling investments, changing investment portfolio allocation and taking other protective action. Other limitations in the above sensitivity analyses include the use of hypothetical market movements to demonstrate potential risk. These represent the company's views of possible near-term market changes that cannot be predicted with any certainty, and the assumption that all interest rates move in an identical fashion.

3.5 Regulatory issues

Both Syndicates are required to comply with the requirements of the Prudential Regulation Authority, Financial Conduct Authority and Lloyd's. Lloyd's requirements include those imposed on the Lloyd's market by overseas regulators, particularly in respect of US Situs business. Regulatory risk is the risk of loss owing to a breach of regulatory requirements or failure to respond to regulatory change. The Syndicate's managing agent devotes considerable resources to meet its regulatory obligations, including compliance and internal audit functions.

3.6 Operational risk

Operational risk is the risk of loss from people, processes or systems or external events with origins outside the scope of other risk categories. HSL actively monitors and controls its operational risks through the Operational Risk Committee and Operational Leadership team. Examples of key operational risks for the syndicate include IT performance and stability, voluntary staff exit rate and the delivery of major projects.

3. **Risk review** *continued*

HSL recognise that the ability to continue operations in the event of a business interruption, whether from a major disaster or minor incident, is a fundamental factor in meeting the expectations of our customers and internal and external stakeholders. Both Syndicates and Lloyd's have a formal disaster recovery plan which, in the event of an incident, will support alternative accommodation strategies. All IT systems are assessed for recovery time objectives and investment has been made into remote working technology

3.6 Operational risk continued

providing access to corporate systems away from the office and ensuring that this technology is well used and familiar to staff.

3.7 Equity price risk

The company is exposed to equity price risk through its holding of equity and unit trust investments. This is limited to a relatively small and controlled proportion of the overall investment portfolio and the equity and unit trust holdings involved are diversified over a number of companies and industries. An allocation is made to less volatile, absolute return strategies within the risk assets, so as to balance the maximising of returns with the need to ensure capital is available throughout any downturn in financial markets.

4. Capital

The capital structure of the Company consists of equity attributable to owners of the Company, comprising issued capital, reserves and retained earnings as disclosed in the statement of changes in equity.

During the current and prior financial periods, the Company complied with all external capital requirements to which it is subject.

The Company is required to hold regulatory capital in compliance with the prudential rules issued by the UK's Prudential Regulation Authority (PRA) and is also subject to Lloyd's capital requirements.

Under PRA rules, the corporate member must hold capital in excess of the higher of two amounts. The first is the Minimum Capital Requirement (MCR), as prescribed by EU directives, calculated by applying fixed percentages to premium and claims and allowing for historic reinsurance recoveries. The second is the calculation of an ultimate Solvency Capital Requirement (uSCR).

Lloyd's require the preparation of a Lloyd's Capital Return (LCR), including a statement of financial position prepared under Solvency II principles and the calculation of a uSCR. The uSCR takes account of one year of new business in full attaching to the next underwriting year and the risks over the lifetime of the liabilities ('to ultimate'). The requirements include risks for all business attaching to the next underwriting year. This is an equivalent recognition of risks and exposures at a 1:200 confidence level as required under ICAS at Lloyd's.

For the final capital requirement, the Economic Capital Assessment (ECA), Lloyd's take the uSCR and apply an uplift currently at 35%. This is then subject to a minimum of 40% (2018:40%) of the Syndicate's agreed premium capacity limit.

The PRA expects management to apply their rules continuously. If a firm's capital falls below its ECA, steps must be taken to restore capital adequacy.

At 31 December 2019, the Company provided sufficient Funds at Lloyd's (FAL) to meet its solvency requirement.

5. Expenses

	2019 $000	2018 $000
Brokerage and commissions	**480,672**	482,330
Other acquisition costs	**14,258**	11,489
Reinsurers' commissions and profit participations	**(163,001)**	(146,777)
Change in deferred acquisition costs	**11,952**	227
Expenses for the acquisition of insurance contracts	**343,881**	347,269
Administrative expenses	**39,481**	45,447
Investment management fees	**941**	805
Net foreign exchange loss/ (gain)	**(193)**	(1,030)
Finance costs	**495**	300
Total expenses (excluding net claims and claims adjustment expenses)	**384,605**	392,791

Also included in Administrative expenses is a pension recharge as detailed in note 2.13. In calendar year 2019 this amounted to a charge of $4.6m (2018: credit of $8.0m).

Brokerage and commissions on direct business written was $434.2m (2018: $439.3m).

Finance costs are primarily in relation to the provision of Funds At Lloyd's that the Company is required to hold, primarily to cover circumstances where syndicate assets prove insufficient to meet the company's underwriting liabilities on the syndicates it participates on.

The Company has not employed any staff during the current or preceding financial period.

5.1 Directors' remuneration

All the executive directors of the Company are employed by Hiscox Underwriting Group Services Limited. The Company was not recharged for any of their services during the year (2018: $nil).

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.

	2019	2018
Deferred members of the defined benefit scheme	**1**	1
Pensioner members of the defined benefit scheme	**1**	1
Deferred members of the defined contribution scheme	**1**	1
Pensioner member of the defined contribution scheme	**1**	1
Aggregate gains made on share options and performance share plan awards ($000)	**592**	1,900

5. **Expenses** *continued*

5.2 Staff numbers and costs

All the executive Directors of the Company are employed by Hiscox Underwriting Group Services Ltd. The Company was not recharged for any of their services during the year (2018: $nil). Recharges of expenses to Syndicates the Company participates on are disclosed in the accounts of those Syndicates.

5.3 Auditor's remuneration

The fees payable to the Company's external auditor PricewaterhouseCoopers, its member firms and its associates (exclusive of VAT) include the following amounts recorded as administrative expenses the income statement:

	2019 $000	2018 $000
Fees payable to the Company's auditors for the audit of the financial statements:		
Fees payable to the Company's auditor for the audit of the Company	**33**	32
Fees payable to the Syndicate's auditor for the audit of the Syndicate 33 accounts	**333**	362
Fees payable to the Syndicate's auditor for the audit of the Syndicate 3624 accounts	**140**	146
Fees payable to the Syndicate's auditor for the audit related assurance services to Syndicate 33	**100**	101
Fees payable to the Syndicate's auditor for the audit related assurance services to Syndicate 3624	**50**	51
Total auditors' remuneration expense	**656**	692

The fees disclosed includes a share of fees for the audit of and other services provided to Syndicate 33 equal to the Company's participation on the Syndicate. Other services relate to the audit of the regulatory returns.

5.4 Net foreign exchange gains

The net foreign exchange gains for the year include the following amounts:

	2019 $000	2018 $000
Net foreign exchange gains recognised in the income statement	**193**	1,030
Overall impact of foreign exchange related items on net assets	**193**	1,030

6 Investment result

The total result before taxation comprises:

	2019 $000	2018 $000
Investment income including interest receivable	**24,100**	23,626
Net realised gains/(losses) on financial investments at fair value through profit or loss	**1,735**	(6,156)
Net unreaslised gains/(losses) on financial investments at fair value through profit or loss	**23,941**	(10,352)
Total result	**49,776**	7,118

Investment expenses are disclosed in note 5.

7 Segmental analysis

An analysis of the underwriting result before investment return is set out below:

2019	Gross premiums written $000	Gross premiums earned $000	Gross claims incurred $000	Net operating expenses $000	Reinsurance Balance $000	Total $000
Direct insurance						
Accident and health	**33,087**	**40,224**	**(24,107)**	**(14,671)**	**(2,210)**	**(764)**
Motor - Third Party liability	**2,356**	**2,903**	**(2,535)**	**(686)**	**(45)**	**(363)**
Motor - Other classes	**10,088**	**14,517**	**(12,179)**	**(3,202)**	**(346)**	**(1,210)**
Marine aviation and transport	**154,530**	**158,524**	**(94,687)**	**(42,826)**	**(6,729)**	**14,282**
Fire and other damage to property	**603,392**	**595,643**	**(391,959)**	**(117,367)**	**(57,652)**	**28,665**
Third party liability	**623,411**	**581,620**	**(456,105)**	**(147,923)**	**13,908**	**(8,500)**
Miscellaneous	**95,493**	**117,400**	**(79,158)**	**(30,963)**	**(950)**	**6,329**
	1,522,357	**1,510,831**	**(1,060,730)**	**(357,638)**	**(54,024)**	**38,439**
Reinsurance	**369,458**	**378,919**	**(578,913)**	**(26,665)**	**143,836**	**(82,823)**
Total	**1,891,815**	**1,889,750**	**(1,639,643)**	**(384,303)**	**89,812**	**(44,384)**

2018	Gross premiums written $000	Gross premiums earned $000	Gross claims incurred $000	Net operating expenses $000	Reinsurance Balance $000	Total $000
Direct insurance						
Accident and health	53,046	52,501	(25,479)	(18,408)	580	9,194
Motor - Third Party liability	1,661	3,111	(2,025)	(842)	(386)	(142)
Motor - Other classes	7,772	16,750	(11,456)	(4,734)	428	988
Marine aviation and transport	131,770	162,073	(71,134)	(46,486)	(50,270)	(5,817)
Fire and other damage to property	589,140	546,613	(266,275)	(101,143)	(266,777)	(87,582)
Third party liability	537,671	502,243	(350,091)	(149,903)	82,966	85,215
Miscellaneous	102,850	152,148	(58,361)	(40,938)	1,622	54,471
	1,423,910	1,435,439	(784,821)	(362,454)	(231,837)	56,327
Reinsurance	370,788	365,658	(332,601)	(31,067)	21,056	(19,066)
Total	1,794,698	1,801,097	(1,117,422)	(393,521)	(252,893)	37,261

8 Tax expense

The amounts charged in the income statement comprise the following:	**2019 $000**	2018 $000
Current tax expense	**10,808**	22,740
Deferred tax credit	**(10,694)**	(11,976)
	114	10,764

Current tax expense	**2019 $000**	2018 $000
Current tax expense	**11,661**	20,130
Adjustments to UK corporation tax in respect of previous periods	**(853)**	2,610
	10,808	22,740

Deferred tax credit	**2019 $000**	2018 $000
Origination and reversal of timing differences	**(10,384)**	(12,207)
Adjustments in respect of previous periods	**(645)**	(138)
Effect of rate change	**335**	369
	(10,694)	(11,976)

The tax expense on the Company's profit before tax differs (2018: differs) from the theoretical amount that would arise using the average tax rate applicable to profits of the Company as follows:

	2019 $000	2018 $000
Profit before tax	**5,090**	45,109
Tax calculated at the standard corporation tax rate applicable in the UK of 19% (2018: 19%)	**967**	8,571
Effects of:		
Change in deferred tax rate	**335**	369
Items not deductible / (taxable)	**310**	(648)
Prior year tax adjustment to current tax	**(853)**	2,610
Prior year tax adjustment to deferred tax	**(645)**	(138)
Tax charge for the period	**114**	10,764

Factors affecting tax charges in future years

Budgets in previous years announced changes to the main rate of UK corporation tax. The current rate of 19% was enacted on 26th October 2015 and applied from 1st April 2017.

A reduction in the UK corporation tax rate from 19% to 17% (effective from 1st April 2020) was substantively enacted on 6th September 2016, and the UK deferred tax asset as at 31st December 2019 has been calculated based on this rate. In the 11th March 2020 Budget, it was announced that UK tax rate will remain at the current 19% and not reduced to 17% from the 1st April 2020. This will have a consequential effect on the company's future tax charge. If this rate change had been substantively enacted at the current balance sheet date, the deferred tax asset would have been increased by approximately $1 million.

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

9 Intangible assets

	2019 $000	2018 $000
Net book amount at 1 January		
Cost	**33,082**	33,082
Accumulated impairment	**-**	-
Net book amount	**33,082**	33,082
Year ended 31 December		
Opening net book amount	**33,082**	33,082
Impairment charges	**-**	-
Closing net book amount	**33,082**	33,082
Net book amount at 31 December		
Cost	**33,082**	33,082
Accumulated impairment charges	**-**	-
Net book amount	**33,082**	33,082

Intangible assets represent the cost of acquiring capacity in Syndicate 33 at the Lloyd's auctions less any impairment in this value. The Syndicate's weighted average cost recognised on the statement of financial position is approximately ten pence per pound of capacity, which is significantly below the average open market price of capacity witnessed in the recent Lloyd's of London capacity auctions in Autumn 2019.

The Company also holds capacity on Syndicate 3624 however this was created at zero cost.

10 Deferred acquisition costs

As at 31 December 2019	2019 $000	2018 $000
Balance deferred at 1 January	**258,496**	258,722
Acquisition costs incurred in relation to insurance contracts written	**494,930**	493,820
Acquisition costs expensed to the income statement	**(506,882)**	(494,046)
Adjustment reflected in the foreign currency reserve	**-**	-
Balance deferred at 31 December	**246,544**	258,496

11 Financial investments carried at fair value

Financial investments are measured at their bid price values, with all changes from one accounting period to the next being recorded through the income statement.

Fair value hierarchy

As at 31 December 2019	**Level 1 $000**	**Level 2 $000**	**Level 3 $000**	**Total $000**
Equities and shares in unit trusts	**-**	**114,696**	**-**	**114,696**
Debt and fixed income securities	**658,609**	**1,329,445**	**-**	**1,988,054**
Derivative financial assets	**-**	**3**	**-**	**3**
Derivative financial liabilities	**-**	**(263)**	**-**	**(263)**

As at 31 December 2018	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
Equities and shares in unit trusts	-	77,809	-	77,809
Debt and fixed income securities	579,224	1,270,501	-	1,849,725
Derivative financial assets	-	7	-	7
Derivative financial liabilities	-	(282)	-	(282)

All financial investments in the current and prior financial year were classified as held for trading and carried at fair value through profit or loss. Other financial assets are cash at bank and in hand, direct insurance and reinsurance debtors, other debtors and accrued income, which are classified as financial assets at amortised cost.

The fair value hierarchy classifies financial instruments into Level 1 to Level 3 based on the significance of the inputs used in measuring their fair value with Level 1 being the most reliable. The levels within the fair value hierarchy are defined as follows:

Level 1 – fair values measured using unadjusted quoted prices 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 Company measures the fair value of its financial investments 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 service uses 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.

Included within Level 1 of the hierarchy are Government bonds and treasury bills which are assessed by the Syndicate as being traded in an active market where fair value is based on unadjusted quoted market prices.

Level 2 of the hierarchy contains US Government agencies, corporate securities, asset backed securities, mortgage backed securities and certain other Government securities. The fair value of these assets are based on, where obtainable, guided prices and prices derived from models with observable market inputs as discussed above. Quoted prices for US Government agencies, certain other Government securities and corporate securities are based on a limited number of transactions for those securities and as such the Company considers these instruments to have similar characteristics of those instruments classified as Level 2. Also included within Level 2 are units held in traditional long funds and long and short special funds and financial derivatives.

11. Financial investments carried at fair value *continued*

Where a valuation technique is used, the Company selects inputs using the most reliable source of data and where possible observable market data.

12 Financial assets at amortised cost

	31 December 2019 $000	31 December 2018 $000
Gross receivable arising from insurance and reinsurance contracts	**639,622**	565,618
- Less provision for impairment	**(246)**	(191)
Net receivable arising from insurance and reinsurance contracts	**639,376**	565,427
Due from contract holders, brokers, agents and intermediaries	**299,958**	292,573
Due from reinsurance operations	**339,418**	272,854
	639,376	565,427
Other financial assets		
- Prepayments and accrued income	**662**	1,958
- Other	**17,562**	10,815
Total financial assets at amortised cost	**657,600**	578,200

Note 20 sets out the amounts to be settled after one year.

There is no significant concentration of credit risk with respect to financial assets at amortised cost, as the Company has a large number of internationally dispersed debtors.

13 Cash and cash equivalents

	31 December 2019 $000	31 December 2018 $000
Cash	**180,328**	217,127
Cash equivalents	**27,942**	18,679
	208,270	235,806

Cash and cash equivalents includes funds held by Syndicates on which the Company participates. These cash deposits are held in a well diversified range of banks and financial institutions. Cash includes overnight deposits. Cash equivalents include debt securities with an original maturity date of less than three months and money market funds.

14 Share capital

	2019		2018	
	Number of shares	**$000**	Number of shares	$000
Called up, allotted and fully paid shares of $1 each				
Ordinary shares of $1.35 each	**1,500,000**	**2,025**	1,500,000	2,025

15 Foreign currency reserve

	31 December 2019 $000	31 December 2018 $000
At 1 January	**22,049**	22,049
Movement in foreign currency reserve	**-**	-
At 31 December	**22,049**	22,049

16 Deferred tax

	31 December 2019 $000	31 December 2018 $000
Deferred tax assets	**41,867**	26,289
Deferred tax liabilities	**(33,403)**	(28,824)
Total net deferred tax liability	**8,464**	(2,535)

Deferred tax assets predominantly relate to losses recognised on syndicate years of account that have yet to be distributed to the company and are therefore not yet deductible.

Deferred tax liabilities predominantly relate to historic tax deductions for the movement in the claims equalisation reserve which are being unwound over 6 years, as well as reinsurance recoveries which are not yet taxable.

16.1 Movement in total deferred tax statement of financial position headings

	31 December 2019 $000	31 December 2018 $000
At 1 January	**(2,534)**	(14,814)
Income statement credit	**10,694**	11,976
Foreign exchange impact	**304**	304
At 31 December	**8,464**	(2,534)

16.2 Deferred assets and liabilities analysis

	1 January 2019 $000	Income statement (charge) / credit	Foreign exchange (charge) / credit	31 December 2019 $000
Intangible assets	1,583	(128)	(4)	**1,451**
Undeclared results	24,707	15,273	436	**40,416**
Reinsurance recoveries	(15,170)	(8,825)	(252)	**(24,247)**
Claims equalisation reserves	(13,654)	4,374	124	**(9,156)**
	(2,534)	10,694	305	**8,464**

17 Insurance liabilities and reinsurance assets

	2019 $000	2018 $000
Gross		
Claims reported	**1,130,919**	1,000,826
Claims incurred but not reported	**2,213,010**	1,769,828
Loss adjustment expenses	**31,275**	26,503
Unearned premium	**878,873**	876,807
Total insurance liabilities, gross	4,254,077	3,673,964
Recoverable from reinsurers		
Claims reported	**858,319**	759,286
Claims incurred but not reported	**1,821,148**	1,408,421
Unearned premium	**549,881**	523,202
Total reinsurers' share of insurance liabilities	**3,229,348**	2,690,909
Net		
Claims reported	**272,600**	241,540
Claims incurred but not reported	**391,862**	361,407
Loss adjustment expenses	**31,275**	26,503
Unearned premium	**328,992**	353,605
Total insurance liabilities, net	**1,024,729**	983,055

18 Current tax

The Company is part of a group payment arrangement for corporation tax purposes and accordingly tax balances are settled by Hiscox plc. The current tax liabilities which are covered by the arrangement but remain unsettled by Hiscox plc as at December 2019 are $30,720,000 and $38,549,000 for the year ended 2019 and 2018 respectively. In respect of the 2018 tax liability of $38,549,000, a prior year adjustment (see note 2.2) has been made to show the tax liability separately from financial liabilities at amortised cost.

19 Financial liabilities at amortised cost

	2019 $000	Restated* 2018 $000
Creditors arising out of direct insurance operations	**3,413**	5,352
Creditors arising out of reinsurance operations	**1,755,682**	1,615,352
Reinsurance commission deferred	**76,137**	66,457
Other creditors	**26,601**	68,491
Accruals and deferred income	**315**	515
Due to parent company	**129,185**	47,912
Due to other subsidiaries	**199**	281
Derivative financial liabilities	**263**	283
Total financial liabilities at amortised cost	**1,991,794**	1,804,643

*See note 2.2

20 Non-current assets and liabilities

The amounts expected to be settled after one year of the date of the statement of financial position, relate to the following items:

	Notes	2019 $000	2018 $000
Financial assets at amortised cost including insurance receivables	12	**45,778**	94,116
Deferred tax	16	**8,464**	(2,535)
Financial liabilities at amortised cost	19	**(94,512)**	(94,868)

21 Insurance liabilities and reinsurance assets – Claims development tables

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. A reconciliation of the liability as included in the statement of financial position, is also shown.

Insurance claims and loss adjustment expenses - Gross

Accident year	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**Total**
	$000	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**
Estimate of ultimate claims costs as adjusted for foreign exchange*:											
at end of accident year	793,141	959,066	893,930	681,094	763,793	828,384	1,030,980	1,726,217	1,414,746	1,441,302	10,532,653
one year later	637,977	847,707	793,009	599,274	633,802	756,871	940,018	1,553,958	1,653,119	-	8,415,735
two years later	580,107	826,372	733,776	524,567	594,883	701,956	898,580	1,567,659	-	-	6,427,900
three years later	575,594	835,587	734,590	488,822	573,419	705,907	928,006	-	-	-	4,841,925
four years later	560,469	820,404	733,996	491,725	561,701	714,079	-	-	-	-	3,882,374
five years later	551,797	794,191	728,629	479,943	544,425	-	-	-	-	-	3,098,985
six years later	538,273	751,558	731,273	478,656	-	-	-	-	-	-	2,499,760
seven years later	528,232	728,387	712,130	-	-	-	-	-	-	-	1,968,749
eight years later	532,261	716,065	-	-	-	-	-	-	-	-	1,248,326
nine years later	524,222	-	-	-	-	-	-	-	-	-	524,222
Cumulative payments to date	(501,494)	(716,728)	(636,737)	(461,190)	(492,377)	(576,840)	(719,550)	(978,293)	(708,738)	(190,220)	(5,982,167)
Liability for 2009 to 2018 accident years recognised on the statement of financial position	22,728	(663)	75,393	17,466	52,048	137,239	208,456	589,366	944,381	1,251,082	3,297,496
Liability for accident years before 2009 recognised on the statement of financial position											77,708
Total liability included in the statement of financial position - gross											3,375,204

Insurance claims and loss adjustment expenses - Net

Accident year	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**Total**
	$000	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**
Estimate of ultimate claims costs as adjusted for foreign exchange*:											
at end of accident year	229,253	277,046	235,981	223,470	234,391	248,334	292,610	369,914	317,446	312,584	2,741,029
one year later	194,803	255,319	206,032	199,740	200,572	231,481	273,652	320,219	324,255	-	2,206,073
two years later	178,766	246,020	190,646	175,974	183,428	213,447	260,378	322,081	-	-	1,770,740
three years later	173,112	245,601	180,937	163,078	172,923	213,350	265,904	-	-	-	1,414,905
four years later	167,581	244,119	182,630	163,075	166,899	215,411	-	-	-	-	1,139,715
five years later	167,157	234,590	185,657	155,028	160,186	-	-	-	-	-	902,618
six years later	159,896	225,107	180,935	154,916	-	-	-	-	-	-	720,854
seven years later	156,186	215,328	175,611	-	-	-	-	-	-	-	547,125
eight years later	156,315	212,248	-	-	-	-	-	-	-	-	368,563
nine years later	154,764	-	-	-	-	-	-		-	-	154,764
Cumulative payments to date	(148,188)	(214,196)	(155,119)	(147,647)	(132,600)	(161,096)	(197,390)	(236,630)	(168,719)	(64,054)	(1,625,639)
Liability for 2008 to 2018 accident years recognised on the statement of financial position	6,576	(1,948)	(210,958)	7,269	27,586	54,315	68,514	85,451	155,536	248,530	672,321
Liability for accident years before 2009 recognised on the statement of financial position											23,416
Total liability included in the statement of financial position - net											695,737

* This foreign exchange adjustment arises from the retranslation of the estimates at each date using the exchange rate ruling at 31 December 2019.

22 **Insurance liabilities and reinsurance assets – Movement in the year**

Year ended 31 December	2019 Gross $000	2019 Reinsurance $000	2019 Net $000	2018 Gross $000	2018 Reinsurance $000	2018 Net $000
Total at the beginning of the year	**(2,797,157)**	**2,167,707**	**(629,450)**	(2,489,265)	1,866,370	(622,895)
Claims and loss adjustment expenses for the year	**(1,639,643)**	**1,332,618**	**(307,025)**	(1,117,422)	909,562	(207,860)
Cash paid for claims settled in the year	**1,070,917**	**(828,542)**	**242,375**	903,908	678,793	1,582,701
Exchange differences and other movements	**(9,321)**	**7,684**	**(1,637)**	(94,378)	(1,287,018)	(1,381,396)
Total at end of year	**(3,375,204)**	**2,679,467**	**(695,737)**	(2,797,157)	2,167,707	(629,450)
Claims reported and loss adjustment expense reserves	**(1,162,194)**	**858,319**	**(303,875)**	(1,027,329)	759,286	(268,043)
Claims incurred but not reported	**(2,213,010)**	**1,821,148**	**(391,862)**	(1,769,828)	1,408,421	(31,407)
Total at end of year	**(3,375,204)**	**2,679,467**	**(695,737)**	(2,797,157)	2,167,707	(629,450)
Current year claims and loss adjustment expenses	**(1,479,194)**	**1,180,459**	**(298,735)**	(812,175)	713,197	(98,978)
Over provision in respect of prior year claims and loss adjustment expenses	**(160,449)**	**152,159**	**(8,290)**	(305,247)	196,365	(108,882)
Total claims and loss adjustment expenses	**(1,639,643)**	**1,332,618**	**(307,025)**	(1,117,422)	909,562	(207,860)

23 Dividend paid to owners of the Company

A dividend of $Nil was paid in 2019 (2018: $95,467,000).

24 Related party disclosures

Disclosed below are the related party transactions of the Company. Related party transactions of the syndicates on which the Company participates are described in the section below and further details of these transactions are disclosed in the accounts of these syndicates. The following statement of financial position amounts were outstanding at year end with related parties:

Statement of financial position assets and (liabilities)	**31 December 2019 $000**	Restated* 31 December 2018 $000
Hiscox Plc	**(129,185)**	(47,912)
Hiscox Underwriting Group Services Ltd	**(279)**	(281)
Hiscox Ltd	**-**	(26,218)
Hiscox Capital Ltd	**80**	58
Hiscox Syndicates Limited	**(1,320)**	(16,832)
Other HSL Managed Syndicates	**95,115**	19,532
Hiscox Ltd Subsidiaries (intermediary services)	**56,917**	62,496
Hiscox Ltd Subsidiaries (insurance)	**254,900**	162,014
Hiscox Ltd Subsidiaries (other)	**(1,514)**	(29,240)

*See note 2.2

24. Related party disclosures *continued*

The following amounts reflected in the income statement were transacted with related parties:

Net income and (expenses) reflected in the Income Statement	**31 December 2019 $000**	31 December 2018 $000
Hiscox Plc	**97**	(38)
Hiscox Underwriting Group services Ltd	**2**	(169)
Hiscox Capital Ltd	**24,945**	(67,069)
Hiscox Syndicates Limited	**(8,805)**	(25,263)
Other HSL Managed Syndicates	**46,763**	7,594
Hiscox Ltd Subsidiaries (intermediary services)	**(86,878)**	(87,963)
Hiscox Ltd Subsidiaries (insurance)	**45,928**	31,979
Hiscox Ltd Subsidiaries (other)	**(94,089)**	(96,963)

Loans are made between the Company and its parent Hiscox Plc.

Hiscox Syndicates Limited, a group company, received management fees and profit commissions for providing a range of management services to Syndicate 33, on which Hiscox Dedicated Corporate Member Limited participates.

Hiscox Dedicated Corporate Member has reinsurance arrangements with another group company, Hiscox Capital Ltd, covering the Company's participations on the 2016, 2017, 2018 and 2019 years of accounts of both Syndicates 33 and 3624. Any business placed with Hiscox Dedicated Corporate Member Limited is on an arm's length basis.

Hiscox Dedicated Corporate Member Limited is a corporate member within the Hiscox Group which owns capacity on all open years of account of Syndicates 33 and 3624. Syndicates 33 and 3624 have a number of related party transactions with other group companies as specified below.

Hiscox Underwriting Group Services Limited provides administrative services on behalf of the Company on a no profit no loss basis. Hiscox Underwriting Group Services Limited acts as an employment service company which employs all UK Hiscox Group staff including underwriters, claims and reinsurance staff.

Hiscox Insurance Company (Bermuda) Limited, a wholly owned direct subsidiary of Hiscox Ltd, is a Class 4 insurer in Bermuda authorised by the Bermuda Monetary Authority. It supplies some risk modeling services to HSL. Syndicate 33 and 3624 purchase a significant amount of reinsurance from Hiscox Insurance Company (Bermuda) Limited; such reinsurances are on an arm's-length basis and are in the interests of all the Names on the Syndicate.

Hiscox Insurance Company (Guernsey) Limited is a GFSC-authorised non-life insurance company which predominantly underwrites specialist personal lines business worldwide. It has reinsurance transactions with both Syndicate 33 and 3624; such reinsurances are on an arm's length basis and are in the interests of all the Names on the Syndicate.

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

Insurance intermediaries

Hiscox Underwriting Ltd is an FCA authorised non-life insurance intermediary and Lloyd's Service Company. It currently places business with Hiscox carriers, including the Hiscox managed Syndicate 33 and 3624, as well as 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 Ltd.

Hiscox Agencies Limited, a wholly owned indirect subsidiary of Hiscox Ltd, is authorised non-life insurance intermediary and Lloyd's Service Company. It places business with Syndicate 33 and 3624. It is not obliged to place business with any particular carrier and these arrangements are subject to review by Hiscox Agencies Limited.

24. Related party disclosures *continued*

Hiscox Inc., a wholly owned indirect subsidiary of Hiscox Ltd incorporated in USA (Delaware), is a US authorised non-life insurance intermediary and Lloyd's Service Company. It places business with Syndicate 33 and 3624. It is not obliged to place business with any particular carrier and these arrangements are subject to review by Hiscox Inc..

Hiscox Insurance Services Inc., a wholly owned indirect subsidiary of Hiscox Ltd, is a US authorised non-life insurance intermediary and Lloyd's Service Company. It places business with Syndicate 33. It is not obliged to place business with any particular carrier and these arrangements are subject to review by Hiscox Insurance Services Inc..

Hiscox Europe Underwriting Limited, a wholly owned indirect subsidiary of Hiscox Ltd, is an FCA authorised non-life insurance intermediary and Lloyd's Service Company. It places business with Syndicate 33. It is not obliged to place business with any particular carrier and these arrangements are subject to review by Hiscox Europe Underwriting Limited.

Hiscox Assure SAS is a regulated French insurance intermediary subject to the supervision of the French Prudential Supervisory Authority ACPR (Autorité de contrôle prudentiel et de résolution) and Lloyd's Coverholder. Hiscox Assure SAS is duly authorized to conduct insurance intermediation activities in other Member States of the European Union and the European Economic Area. It places business with Syndicate 33 and 3624. It is not obliged to place business with any particular carrier and these arrangements are subject to review by Hiscox Assure SAS.

Hiscox MGA Ltd, a wholly owned indirect subsidiary of Hiscox Ltd, is an FCA authorised non-life insurance intermediary and Lloyd's Coverholder. It places business with Syndicate 33 and 3624. It is not obliged to place business with any particular carrier and these arrangements are subject to review by Hiscox MGA Ltd.

Hiscox Ltd indirectly owns a 35.4% holding in Media Insurance Brokers International Limited, the holding company of an FCA authorised non-life insurance intermediary Media Insurance Brokers Limited which currently places business with various carriers, including Syndicate 3624. Media Insurance Brokers Limited 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 Limited.

Hiscox Ltd indirectly owns a 29.81% holding in White Oak Underwriting Agency Limited, a FCA authorised non-life insurance intermediary, which previously placed business with Syndicate 3624. White Oak Underwriting Agency Limited is not obliged to place business with any particular carrier and these arrangements are subject to review from time to time by White Oak Underwriting Agency Limited.

None of the Directors who served during this period or the prior period were underwriting Names at Lloyd's for any open years of account.

25 Ultimate holding company

The direct holding company of Hiscox Dedicated Corporate Member Limited is Hiscox plc. The ultimate holding company and controlling party which heads both the largest and smallest group of undertakings for which consolidated financial statements are prepared is Hiscox Ltd, a public company incorporated and domiciled in Bermuda, whose ordinary share capital is listed on the London Stock Exchange.

A copy of the consolidated financial statements of Hiscox Ltd may be obtained from the Company Secretary at Chesney House, 96 Pitts Bay Road, Pembroke HM 08, Bermuda.

26 Guarantees and contingencies

The Company and the Syndicates, on which it participates, 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.

The following guarantees were in place at 31 December:

- Hiscox Dedicated Corporate Member Limited (HDCM) and its reinsurer Hiscox Capital Ltd (HCL) provide assets under a Security and Trust Deed charged to Lloyd's of London, to meet any liabilities they incur from their interest in Syndicates 33 and 3624. At 31 December 2019 HDCM held $448.9 million (2018: $332.9 million) investments, $24.2 million (2018: $23.4 million) cash and $25.0 million (2018: $25.0 million) bank letters of credit in favour of Lloyd's of London under this arrangement. At 31 December 2019 HCL held $637.9 million (2018: $571.8 million) investments, $2.4 million (2018: $14.3 million) cash and $25.0 million (2018: $25.0 million) in bank letters of credit in favour of Lloyd's of London under this arrangement.

- The Company's parent, Hiscox plc, has a banking facility with a syndicate of banks including Lloyds Bank Plc under which the Group can benefit from $800 million (2018: $800 million) of borrowing, from which Letters of Credit of $50 million at 31 December 2019 (2018: $50 million) were drawn down to provide funds at Lloyd's for Hiscox Dedicated Corporate Member Limited.

- The Council of Lloyd's has the discretionary power to call a loan from each syndicate equal to 3% of the syndicate's capacity at Lloyd's

27 Post Balance Sheet Event

During the finalisation of these accounts, COVID-19 outbreak has evolved into an unprecedented public health emergency in the UK and around the world, causing disruption to businesses and economic activity. The situation remains dynamic as governments around the globe take unprecedented measures to slow the spread and mitigate the human tragedy. The Company considers this outbreak to be a non-adjusting post balance sheet event.

There remains significant uncertainty regarding the financial impact to the Company arising from COVID-19. Plans for the re-opening of economies, and lifting of restrictions on mass gatherings and travel in many countries remains unclear. Management's preliminary estimates of the net losses for the Company amount to approximately $38 million to $47 million and relate primarily to event cancellation and postponement. Due to the level of uncertainty, these estimates do not take into account potential net losses arising within certain property and reinsurance classes of business, and could have a material impact on net losses.

The estimated net loss along with the increased market risks in the first quarter have led to a requirement to increase the funds to be held at Lloyd's (FAL) which is due in the second quarter of 2020. The Company with the support of its parent is committed to fund the increase in FAL.