Registration number: 4137419

HISCOX UNDERWRITING GROUP SERVICES LIMITED

Annual Report and Financial Statements

for the Year Ended 31 December 2019

HISCOX UNDERWRITING GROUP SERVICES LIMITED

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HISCOX UNDERWRITING GROUP SERVICES LIMITED

Company Information

Directors	Bronisław Edmund Masojada (Chief Executive Officer) Hamayou Akbar Hussain (Group Chief Financial Officer) Richard Colin Watson (Group Chief Underwriting Officer - resigned 31 December 2019) Amanda Victoria Brown (Group Human Resources Director)
Registered office	1 Great St Helen's London EC3A 6HX
Registered number	4137419
Tax advisors	KPMG LLP 15 Canada Square Canary Wharf London E14 5GL
Bankers	Lloyds TSB Bank Plc 113-116 Leadenhall Street London EC3A 4AX
Independent Auditors	PricewaterhouseCoopers LLP 7 More London Riverside London SE1 2RT

HISCOX UNDERWRITING GROUP SERVICES LIMITED

Strategic Report for the Year Ended 31 December 2019

The Directors present their Strategic Report for the year ended 31 December 2019.

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

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

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

Business review and key performance indicators
The Company generated a profit before tax for the year of £19,813,000 (2018: loss before tax of £7,383,000) and a total comprehensive income of £3,242,000 (2018: income of £7,359,000). The key elements are as follows:

• Revenue received from management fees increased to £308,189,000 (2018: £307,182,000)
• Administration expenses decreased to £292,483,000 (2018: £319,000,000)
• Remeasurement of net defined benefit liability resulted in an expense of £15,532,000 (2018: income of £18,245,000)

Total equity was £53,572,000 at 31 December 2019 (2018: £50,176,000).

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

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

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

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

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

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

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

Culture
The Company's culture is embedded in that of the overall Hiscox Group. The Hiscox Group culture is underpinned by a set of core values that determine the standard of behaviour expected of employees. These core values guide everything that the Hiscox Group does in its business. By conducting its business with these core values in mind, the Group recognises that it is more likely to achieve business success and create value for its shareholders.

The Hiscox Group strives for the highest standards of corporate governance while being in essence a non-bureaucratic organisation. An effective and firm system of internal controls ensures that risks are managed within acceptable limits, but not at the expense of innovation or speed of response. The Group believes that it has got this balance right and that it is one of its greatest strengths.

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

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

The Company's balance sheet includes significant amounts receivable from Group companies. The recoverability of these balances is dependent on the continued solvency of these companies. The principal risks relating to each of these companies are outlined in their respective 31 December 2019 financial statements.

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

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

COVID-19 uncertainties
During the finalisation of these accounts, Coronavirus (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 Company considers this outbreak to be a non-adjusting post balance sheet event.

The situation remains dynamic as governments around the globe take unprecedented measures to slow the spread and mitigate the human tragedy. As the circumstances evolve rapidly, Management do not consider it practicable to provide a quantitative measure of the potential impacts on the Company.

The unprecedented social distancing measures have resulted in the activation of business continuity plans (BCP) and servicing customers whilst working remotely. The investment in new technology in recent years has meant the business operates mostly in a paperless environment.

Statement by the directors in performance of their statutory duties in accordance with s172 (1) Companies Act 2006
The Board of Directors of HUGS 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 31 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 intermediary group service 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 UKmployees are employed by HUGS. Hiscox wants to build teams that are as diverse as our customers and create a vibrant work environment where all employees can thrive, employee engagement is disclosed in the Directors' Report. 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 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. Hiscox's business relationships framework is disclosed in the Director Report.

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 Hiscox 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 within 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.

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

Approved by the Board on 30 June 2020 and signed on its behalf by:

....
Hamayou Akbar Hussain
Director

HISCOX UNDERWRITING GROUP SERVICES LIMITED

Directors' Report for the Year Ended 31 December 2019

The directors present their annual report and the audited financial statements for the year ended 31 December 2019.

The Company is a wholly owned subsidiary of Hiscox Ltd, a public company incorporated and domiciled in Bermuda whose ordinary share capital is listed on the London Stock Exchange. Hiscox Ltd is the Company's ultimate parent company. Copies of its consolidated financial statements are available from the Company Secretary at Hiscox Ltd, 4th Floor, Chesney House, 96 Pitts Bay Road, Pembroke HM 08, Bermuda.

Dividends and transfers to reserves
The directors do not recommend the payment of a dividend for the year ended 31 December 2019 (2018: £nil). The total comprehensive income for the financial year of £3,242,000 (2018:£7,359,000) has been transferred to the Company's retained earnings.

Going concern
The Company has net current liabilities of £66,053,000 at 31 December 2019 (2018: £46,738,000). The financial statements are prepared on a going concern basis which the directors believe to be appropriate for the following reasons. The Company is dependent for its working capital on funds provided to it by Hiscox plc, the Company's immediate parent and Hiscox Ltd, the Company's ultimate parent company. Hiscox Ltd, has confirmed that for at least 12 months from the date of approval of these financial statements, it will continue to make available such funds as are needed by the Company and in particular will not seek repayment of the amounts currently made available. This should enable the Company to continue in operational existence for the foreseeable future by meeting its liabilities as they fall due for payment. Working capital forecasts have been prepared for the Group up to 31 December 2022, which demonstrate that the Group has sufficient resources to continue in operational existence for the foreseeable future.

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

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

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

Indemnity insurance
A policy of indemnity insurance cover to the benefit of the directors of the Company has been in force during the year ended 31 December 2019 and at the date of this report.

Political and Charitable Contributions
The Company made no political contributions during the year (2018: £ nil). Donations are paid by the Company, however these are fully recharged to other Hiscox entities and no cost is retained in the Company's own expenses (2018: £nil).

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

The immediate parent company, Hiscox plc, established the Hiscox Group's defined benefit scheme which primarily provides benefits for UK employees. The Company, as the employer, contributes to the scheme by way of periodic recharges from Hiscox plc.

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

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

Environmental - We carefully 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 our 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.

Employee Engagement
We want to build teams that are as diverse as our customers and create a vibrant work environment where all employees can thrive. We highlighted our employee engagement approach in the S172 compliance section of the Strategic report and here we build on the detail of this as the main UK employer for Hiscox Group:

Workforce engagement - Our annual employee engagement survey gives all our employees the opportunity to provide honest feedback and acts as a framework to build plans to address issues. We also have established an Employee Engagement Network, led by our Employee Liaison, Anne MacDonald, Hiscox Ltd Director.

Training and development - All employees have access to internal and external resources to help drive their own learning and development, as well as two formal opportunities each year to discuss development needs and potential. Our approach gives people the choice to develop in their current role, take a step up or try something new.

Employee networks - Almost one in four employees belong to at least one of our nine networks. From WeMind (mental health and well-being) to Women at Hiscox and LGBT+, each network provides focussed discussion, practical activities and support. Some of our Non-Executive Directors have participated, for example as part of a panel discussion on career journeys. For more, visit hiscoxgroup.com/our-employee-networks.

Communication updates - Employees receive regular updates on business plans and performance through emails, intranet articles, and team meetings. We ensure everyone is informed of business matters, for example in our customer experience centre in York, we close the phone lines for one hour each week to give those teams the same opportunity to hear from leadership.

Annual 'launch' events and box meetings - Business unit leaders hold regular all-staff meetings to align on strategy and objectives, inspire and excite. These events are also held when we celebrate those marking ten or 20 years at Hiscox with long-service awards.

Partners' meetings - Hiscox Partner is an honorary title given to employees who make significant contributions to the development and profitability of the Group. Up to 5% of the total workforce are Hiscox Partners, and have the opportunity to influence the direction of our business through regular formal and informal Partners' meetings.

Employee Engagement (continued)

Living Wage - We believe a hard day's work deserves a fair day's pay, which is why in 2019 we became a Living Wage employer in the UK.

Independent Auditors

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

Approved by the Board on 30 June 2020 and signed on its behalf by:

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Hamayou Akbar Hussain

Director

HISCOX UNDERWRITING GROUP SERVICES LIMITED

Statement of Directors' Responsibilities in respect of the Financial Statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In the case of each Director in office at the date of the Directors' Report is approved:

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

Independent auditors' report to the members of Hiscox Underwriting Group Services Limited

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the company's affairs as at 31 December 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 Balance Sheet as at 31 December 2019; the Statement of Profit or Loss and Other Comprehensive Income, the Statement of Cash Flows, the Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

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.

Independent auditors' report to the members of Hiscox Underwriting Group Services Limited

Report on the audit of the financial statements (continued)

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, 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.

R.P. [signature]

Robert Cordock (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
30 June 2020

HISCOX UNDERWRITING GROUP SERVICES LIMITED

Statement of Profit or Loss and Other Comprehensive Income for the Year Ended 31 December 2019

	Note	2019 £ 000	2018 £ 000
Revenue	4	314,039	311,600
Administration expenses	5	(292,483)	(319,000)
Foreign exchange (losses)/gains	6	(1,743)	17
Profit/(loss) before tax		19,813	(7,383)
Tax expense	10	(3,679)	(401)
Profit/(loss) for the year (all attributable to the owners of the Company)		16,134	(7,784)
Items that will not be reclassified subsequently to the Statement of Profit or Loss and Other Comprehensive Income			
Remeasurement of net defined benefit liability	14	(15,532)	18,245
Income tax relating to components of other comprehensive income		2,640	(3,102)
		(12,892)	15,143
Total comprehensive income for the year (all attributable to the owners of the Company)		3,242	7,359

The above results were derived from continuing operations.

The notes on pages 15 to 36 form an integral part of these financial statements.

HISCOX UNDERWRITING GROUP SERVICES LIMITED

(Registration number: 4137419)
Balance Sheet as at 31 December 2019

	Note	2019 £ 000	Restated* 2018 £ 000
Assets			
Intangible assets	8	92,856	67,561
Property, plant and equipment	9	15,356	14,373
Deferred tax assets	10	11,413	14,979
Financial assets at amortised cost	11	213,569	367,730
Current tax asset		7,375	10,694
Cash and cash equivalents	12	22,543	26,719
Total assets		363,112	502,056
Equity and liabilities			
Equity			
Share capital	13	-	-
Retained earnings		53,572	50,176
Total equity (all attributable to the owners of the Company)		53,572	50,176
Liabilities			
Employee retirement benefit obligations	14	41,627	28,088
Trade and other payables	15	267,913	423,792
Total liabilities		309,540	451,880
Total equity and liabilities		363,112	502,056

*See note 2.3

The financial statements were approved by the Board on 30 June 2020 and signed on its behalf by:

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Hamayou Akbar Hussain

Director

HISCOX UNDERWRITING GROUP SERVICES LIMITED

Statement of Changes in Equity for the Year Ended 31 December 2019

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

	Retained earnings £ 000	Total equity £ 000
At 1 January 2019	50,176	50,176
Profit for the year	16,134	16,134
Other comprehensive income	(12,892)	(12,892)
Total comprehensive income	3,242	3,242
Current and deferred tax on employee share options	154	154
At 31 December 2019	53,572	53,572

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

HISCOX UNDERWRITING GROUP SERVICES LIMITED

Statement of Cash Flows for the Year Ended 31 December 2019

	Note	2019 £ 000	Restated* 2018 £ 000
Cash flows from operating activities			
Profit/(loss) for the year before tax		19,813	(7,383)
Adjustments to cash flows from non-cash items			
Depreciation and amortisation charge	5	15,550	16,765
Impairment of fixed assets		1,126	-
Change in tax asset		(3,319)	8,888
Change in operational assets and liabilities		3,079	21,227
Net cash flow from operating activities		36,249	39,497
Cash flows from investing activities			
Acquisitions of property plant and equipment		(666)	(2,423)
Acquisition of intangible assets	8	(37,799)	(14,292)
Net cash flows used in investing activities		(38,465)	(16,715)
Cash flows from financing activities			
Principle elements of lease payments		(1,960)	-
Cash and cash equivalents at 1 January		26,719	3,937
Net (decrease)/increase in cash and cash equivalents		(4,176)	22,782
Cash and cash equivalents at 31 December	12	22,543	26,719

*See note 2.3

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

Notes to the Financial Statements for the Year Ended 31 December 2019

1. General Information

HUGS is a private company limited by shares registered in England and Wales under the Companies Act 2006. The address of the registered office is provided on the company information page and the nature of the Company's operations and principal activities are included within the Strategic Report. All operations are continuing.

2. Significant accounting policies

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

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

After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements. The Company's cash resources are managed on a Group basis. Working capital forecasts have been prepared for the Group up to 31 December 2022, which demonstrate that the Group has sufficient resources to continue in operational existence for the foreseeable future.

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

2.2 New accounting standards, interpretations and amendments to published standards
A number of new standards, amendments to standards and interpretations, as adopted by the European Union, are effective for annual periods beginning on or after 1 January 2019. They have been applied in preparing these financial statements.

The new standards include:

- 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 impact on the Company's financial statements.
- IFRS 16 leases supersedes IAS 17 Leases and sets out the principles for the recognition, measurement, presentation and disclosure of leases. IFRS 16 requires lessees to account for leases under a single on-balance sheet model. Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 has marginal impact on the Company's financial result.

The Company has adopted IFRS 16 retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

On adoption of IFRS 16, the Company recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using applicable incremental borrowing rates as of 1 January 2019. Lease liabilities amounts are presented in balance sheet under trade and other payables.

The associated right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application. Right-of-use assets are presented in balance sheet under property, plant and equipment.

2.2 New accounting standards, interpretations and amendments to published standards (continued)
The Company has elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date, the Company relied on its previous application of IAS 17. As permitted by IFRS 16, the Company also elected to use hindsight in determining the lease term if the contract contains options to extend or terminate the lease.

In addition, the Company has opted to use the recognition exemptions for lease contracts that, at the commencement date:
• have a lease term of 12 months or less and do not contain a purchase option (short-term leases), and
• lease contracts for which the underlying asset is of low value (low-value assets).

Payments associated with short-term and low-value leases amounted to nil.

The impact on the consolidated balance sheet as at 1 January 2019 is shown below:

Assets	**£000**
Increase in property, plant and equipment	4,489
Analysed as right-of-use assets related to: property	4,489
Liabilities	
Increase in trade and other payables	4,489
Analysed as lease liabilities	4,489

The weighted average incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 2.4%.

The undiscounted future minimum payments disclosed under the prior standard at 31 December 2018 were £4,333,000. The impact of discounting was £156,000. The resulting total lease liability recognised as at 1 January 2019 under IFRS 16 is £4,489,000.

Impact on the income statement for the year ended 31 December 2019;

The depreciation expenses from right-of-use assets (operating expenses) and interest expense on the lease liabilities (other administration expenses) under IFRS 16 in 2019 were £46,000 higher than the amount of operating lease expenses under IAS 17.

Impact on the cash flow statement for the year ended 31 December 2019;

Compared with the previous accounting for operating leases under IAS 17, the application of the new standard affects the classification of cash flows. In prior years, operating lease payments were presented as operating cash flows. Lease payments are now split into payments of principal that are presented as financing cash flows, and payments of interest that are included in other administration expenses. Payments related to leases for 2019 amounting to £1,957,000, which under IAS 17 would be classified as operating leases, are presented under cash flows from financing activities. Additionally, the interest expense on the lease liabilities calculated under IFRS 16 amounting to £99,000 has no material impact on the cash flows and is included in other administration expenses.

The following new standards, and amendments to standards, 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.

2.2 New accounting standards, interpretations and amendments to published standards (continued)

- 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.
- Revised Conceptual Framework for Financial Reporting: introduced improvements in measurement, presentation and disclosure and derecognition.

There were no further new standards, amendments or interpretations that had a material impact on the Company.

2.3 Changes in 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 £10,694,000 related to the Company's tax asset was presented as part of amounts due from an intermediate holding company (financial assets at amortised costs). As the amount has not been settled by Hiscox plc with HMRC at the balance sheet date, the amount has been reclassified to and presented as a separate current tax asset.

The impact on the balance sheet	Financial Year 2018			Financial Year 2017		
	As reported previously	Effect of prior year period adjustmenst at 31 December 2018	Restated	As reported previously	Effect of prior year period adjustmenst at 1 January 2018	Restated
Balance sheet	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Effect of analysed adjustments to:						
Total assets						
Current tax	-	10,694	10,694	-	1,806	1,806
Financial assets at amortised cost	378,424	(10,694)	367,730	283,944	(1,806)	282,138
Total equity	(378,424)	-	(378,424)	(283,944)	-	(283,944)

The impact on the cash flow statement	Financial Year 2018		
	As reported previously	Effect of prior year period adjustmenst at 31 December 2018	Restated
Cash Flow	**£000**	**£000**	**£000**
Effect of analysed adjustments to:			
Change in tax asset	-	8,888	8,888
Change in operational assets and liabilities	30,116	(8,888)	21,227

2.4 Foreign currency translation
The functional currency of the Company is Pound Sterling. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the retranslation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of profit or loss and other comprehensive income.

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

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

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

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

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

2.6 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.

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

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

2. Significant accounting policies (continued)

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

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

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

The principal annual rates used are:

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

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

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

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

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

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

2. Significant accounting policies (continued)

2.9 Impairment of assets (continued)

(c) Impairment loss

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

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

2.10 Pensions

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

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

(b) Financial assets (continued)

As permitted under IFRS 9 Financial Instruments for Other Debtors classified as short-term financial assets at amortised cost, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

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

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

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

2.Significant accounting policies (continued)

2.11 Leases
The Company recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment. Right-of-use assets are presented in the balance sheet as 'property, plant and equipment'.

At the commencement date of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating a lease, if the lease term reflects the Company exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs. Lease liabilities are included in 'trade and other payables' in the balance sheet.

In calculating the present value of lease payments, the Company uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification that is not accounted for as a separate lease: future lease payments that are linked to a rate or index, a change in the lease term, a change in the in-substance fixed lease payments, a change in the assessment to purchase the underlying asset or a change in the amounts expected to be payable under a residual value guarantee.

The Company applies the short-term lease recognition exemption to its short-term leases (i.e. those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

As lessor
Rental income from operating leases is recognised on a straight-line basis over the term of the relevant contractual agreement.

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

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not recognised. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled. Deferred tax assets are recognised to the extent that it is probable that the future taxable profit will be available against which the temporary differences can be utilised.

2.13 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)

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

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

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

3 Management of risk

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

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

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

Hiscox Group largely centralises the treasury function for its subsidiaries and so repayment of balances from other Group companies may require the borrower to collect balances that it has owing from other Group companies. Where required, a letter of support has been provided from another Group company expressing that it expected that support will be provided to enable the supported company to meet its liabilities as they fall due. As such, Management has determined that amounts due from the Group undertakings are low credit risk falling within 'stage 1' of IFRS 9's impairment model, and 12-month expected credit losses can be calculated.

In evaluating the probability of defaults on amounts due from the Group undertakings, Management has considered the credit rating of the Group as it provides central support for the funding of the subsidiaries. The Group's credit rating from S&P has been 'A' corresponding to a low probability of default.

Considering the above, Management has concluded that the expected credit default related to amounts due from the Group undertakings is immaterial. Accordingly, no loss allowance has been made for impairment.

The Company has taken the simplification available under IFRS 9, which allows the loss amount in relation to trade receivable to be measured at initial recognition and throughout its life at an amount equal to lifetime ECL. Adoption of this approach means that the significant increase in credit risk and date of initial recognition concepts are not applicable to the Company's ECL calculations.

3 Management of risk (continued)

3 Management of risk (continued)

(a) Credit risk (continued)

The following table provides information regarding the carrying value of the Company's trade receivables, other than amounts due from the Group undertakings, exposed to credit risk:

Trade receivables	Neither past due nor impaired	Up to 3 months	Up to 3 months to 6 months	Up to 6 months to 1 year	Greater than 1 year	Total
Other debtors	30,639,000	-	-	-	-	30,639,000

(b) Liquidity risk

The Company is exposed to liquidity risk arising from the inability to recover its debtor balances, and consequential inability to pay liabilities as they fall due.

As all of the Company's debtors are from related entities, all of whom are supported by the Company's parent company, liquidity risk is considered to be minimal.

(c) Currency risk

The Company's currency risk is related to the foreign exchange movement on its foreign currency denominated inter-group items.

The Company considers changes in foreign exchange to be a short term impact and as balances are repayable on demand, it has the ability to ensure settlement of such balances are at a time when the exchange rate is not significantly detrimental to the Company's financial position.

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

As at 31 December 2019	Sterling £000	Euro £000	US Dollar £000	Total £000
Intangible assets	92,856	-	-	92,856
Property, plant and equipment	15,356	-	-	15,356
Deferred tax assets	11,413	-	-	11,413
Current tax assets	7,375	-	-	7,375
Financial assets at amortised cost	193,933	6,889	12,747	213,569
Cash and cash equivalents	14,340	8,047	156	22,543
Total assets	335,273	14,936	12,903	363,112
Employee retirement benefit obligations	41,627	-	-	41,627
Financial liabilities at amortised cost	266,367	1,546	-	267,913
Total liabilities	307,994	1,546	-	309,540

3 Management of risk (continued)

3(c) Currency risk (continued)

As at 31 December 2018	Restated* Sterling £000	Euro £000	US Dollar £000	Restated* Total £000
Intangible assets	67,561	-	-	67,561
Property, plant and equipment	14,373	-	-	14,373
Deferred tax assets	14,979	-	-	14,979
Current tax assets	10,694	-	-	10,694
Financial assets at amortised cost	193,933	5,963	133,189	367,730
Cash and cash equivalents	4,738	9,400	12,581	26,719
Total assets	340,923	15,363	145,770	502,056
Employee defined benefit obligation	28,088	-	-	28,088
Financial liablities at amortised cost	378,668	3,146	41,978	423,792
Total liabilities	406,756	3,146	41,978	451,880

*** See note 2.3**

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

	Effect on equity 2019 £000	Effect on profit before tax 2019 £000	Effect on equity 2018 £000	Effect on profit before tax 2018 £000
Strengthening of US Dollar	(1,161)	(1,434)	(9,341)	(11,533)
Weakening of US Dollar	950	1,173	7,643	9,436
Strengthening of Euro	(1,205)	(1,488)	(1,100)	(1,357)
Weakening of Euro	986	1,217	900	1,111

4 Revenue

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

	2019 £ 000	2018 £ 000
Transfer pricing charges	3,594	2,284
Management fees	308,189	307,182
Loan interest	2,256	2,134
	314,039	311,600

4 Revenue (continued)

During the year, the Company incurred total operating expenses of £292,483,000 (2018: £319,000,000). The total amount recharged to the managed syndicate and other Group companies for the year was £308,189,000 (2018: £307,182,000).

5 Administration expenses

	2019 £ 000	2018 £ 000
Amortisation expense	12,504	13,442
Depreciation expense	3,046	3,323
Impairment loss	1,126	-
Fees payable to the company's auditor for the audit of the company's annual accounts	25	25
Employee benefit expense (see note 7)	120,712	108,871
Defined benefit pension (income)/expense	(9,954)	9,470
Rent and rates	4,064	10,904
Legal and professional fees	26,369	22,241
Computer software and IT services	53,785	67,993
Marketing and advertising	17,391	18,817
Travel and entertaining	13,422	11,816
Irrecoverable VAT	13,715	13,633
Other staff expenses	18,580	21,986
Other administration expenses	17,698	16,479
Total administration expenses	292,483	319,000

Fees payable to the Company's external auditors, PricewaterhouseCoopers LLP, its member firms and its associates (exclusive of VAT) were £915,000 for the year (2018: £968,000) for the Company's parent company Hiscox Plc and its UK subsidiaries. This is paid for by HUGS and recharged to the various Group companies where applicable.

Audit fees retained in the Company for the audit of these financial statements for the year was £25,000 (2018: £25,000) and were entirely for the audit of the accounts.

Total fees paid to the auditors and other associates are disclosed in the Hiscox Ltd financial statements (note 11 of the annual report).

The Company is exempt under SI 2008/489 from the obligation to disclose fees in respect of 'Other services' as the Company is a subsidiary of Hiscox Ltd, which prepares consolidated financial statements. Fees paid to the Company's auditors for services other than the statutory audit of the Company and other Group undertakings are disclosed in the consolidated accounts of Hiscox Ltd. There were no non-audit fees paid to the Company's auditors.

6 Foreign exchange gains/(losses)

	2019 £ 000	2018 £ 000
Finance costs		
Foreign exchange (losses)/gains	(1,743)	17

7 Staff costs

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

	Wages and salaries	Social security costs	Other pension costs	2019 Total	Wages and salaries	Social security costs	Other pension costs	2018 Total
	£000	£000	£000	£000	£000	£000	£000	£000
Syndicate 33	34,936	5,401	2,903	43,240	29,887	4,303	2,376	36,566
Hiscox Insurance Co. Ltd	40,575	5,821	3,384	49,780	36,929	5,580	3,205	45,714
Hiscox Underwriting Ltd	1,605	253	135	1,993	2,218	333	185	2,736
Hiscox Bermuda	1,958	303	160	2,421	1,709	267	141	2,117
Hiscox Capital Ltd	1,130	142	125	1,397	910	125	94	1,129
Hiscox Insurance Company Inc	6,838	927	531	8,296	6,015	870	465	7,350
Hiscox ASM Ltd	537	74	36	647	606	157	47	810
Hiscox Ltd	1,832	264	152	2,248	1,731	296	135	2,162
Hiscox plc	1,083	189	62	1,334	1,212	183	58	1,453
Syndicate 3624	3,829	593	325	4,747	3,728	544	321	4,593
Hiscox Guernsey	1,143	170	94	1,407	970	164	81	1,215
Hiscox Europe Underwriting Ltd	212	30	17	259	139	18	10	167
Direct Asia	-	(34)	36	2	-	50	54	104
Hiscox Re	963	120	89	1,172	919	126	84	1,129
Hiscox MGA	1,418	250	101	1,769	1,299	220	107	1,626
Total	98,059	14,503	8,150	120,712	88,272	13,236	7,363	108,871

The amounts above charged to the managed syndicates and other Group companies as management fees were £120,712,000 (2018: £108,871,000) for salary and related costs. Other pension costs include defined contribution pension expense plus life assurance benefits.

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

	2019	2018
	Number	Number
Administration	1,135	889
Underwriting	442	446
	1,577	1,335

c) Directors' emoluments

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

7 Staff costs (continued)

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

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

	2019	2018
No. of deferred members of the defined benefit scheme	1	2
No.of deferred members of the defined contribution scheme	2	3
Aggregate gains made on performance share plan awards (£000's)	1,952	1,572

8 Intangible assets

	Software development costs	Total
At 1 January 2018	£000	£000
Cost	120,075	120,075
Accumulated depreciation	(53,364)	(53,364)
Opening net book value	**66,711**	**66,711**
Additions	14,292	14,292
Amortisation charge	(13,442)	(13,442)
Closing net book amount at 31 December 2018	**67,561**	**67,561**
At 1 January 2019		
Cost	134,367	134,367
Accumulated depreciation	(66,806)	(66,806)
Opening net book value	**67,561**	**67,561**
Additions	37,799	37,799
Amortisation charge	(12,504)	(12,504)
Closing net book amount at 31 December 2018	**92,856**	**92,856**
At 31 December 2019		
Cost	134,066	134,066
Accumulated depreciation	(41,210)	(41,210)
Net book amounts 31 December 2019	**92,856**	**92,856**

9 Property, plant and equipment

	Short leasehold buildings	Fixtures & fittings	Other equipment & vehicles	Right of use assets - property	Right of use assets - other	Total
At 1 January 2018	£000	£000	£000	£000	£000	£000
Cost	2,036	22,625	10,242	-	-	34,903
Accumulated depreciation	(1,789)	(12,382)	(5,459)	-	-	(19,630)
Opening net book value	**247**	**10,243**	**4,783**	-	-	**15,273**
Additions	-	1,677	785	-	-	4,114
Disposal	-	(19)	52	-	-	33
Transfer	-	(72)	-	-	-	(72)
Depreciation charge	(157)	(2,513)	(653)	-	-	(3,323)
Closing net book amount at 31 December 2018	**90**	**9,316**	**4,967**	-	-	**14,373**
At 1 January 2019						
Cost	2,036	24,211	11,079	4,489	-	41,815
Accumulated depreciation	(1,946)	(14,904)	(6,103)	-	-	(22,953)
Opening net book value	**90**	**9,316**	**4,967**	**4,489**	-	**18,862**
Additions	2,715	458	208	-	-	3,381
Disposal	-	(2,715)	-	-		(2,715)
Impairment	(512)	(629)	15	-		(1,126)
Depreciation charge	(1,483)	(257)	(460)	(846)	-	(3,046)
Closing net book amount at 31 December 2019	**810**	**6,173**	**4,730**	**3,643**	-	**15,356**
At 31 December 2019						
Cost	2,572	14,575	4,741	4,489	-	26,377
Accumulated depreciation	(1,762)	(8,402)	(11)	(846)	-	11,021
Net book amounts 31 December 2019	**810**	**6,173**	**4,730**	**3,643**	-	**15,356**

The income from subleasing right of use assets was £nil (2018:£nil).

10 Tax expense/(credit)

Tax charged/(credited) in the income statement

	2019 £ 000	2018 £ 000
Current taxation		
UK corporation tax	1,991	(1,596)
Adjustments in respect of prior periods	(1,441)	(461)
Total current tax expense/(credit)	550	(2,057)
Deferred taxation		
Expense for the year	2,248	1,316
Arising from changes in tax rates and laws	881	1,142
Total deferred taxation expense	3,129	2,458
Tax expense in the income statement	3,679	401

	2019 £000	2018 £000
Loss before tax	19,812	(7,783)
Tax calculated at the standard rate of corporation tax in the UK 19% (2018:19%)	3,764	(1,403)
Effects of:		
Non-taxable expenses	475	640
Adjustments in respect of prior years	(425)	543
Changes in deferred tax rates	(135)	138
Transfer from equity	-	483
Total tax expense/(credit) for the year	3,679	401

	2019 £000	2018 £000
Deferred tax assets	11,413	14,979

Movement on the deferred tax asset	2019 £000	2018 £000
At 1 January	14,979	20,360
Income Statement (credit)/expense	(3,129)	(2,458)
Transfer to equity	(437)	(2,923)
At 31 December	11,413	14,979

10 Tax expense/(credit) (continued)

Deferred tax assets analysed by balance sheet heading

	2019 £000	2018 £000
Tangible assets	247	175
Intangible assets	(3,653)	(3,918)
Provisions	561	2,725
Retirement benefit obligation	7,077	4,775
Share based compensation	7,180	11,222
Total deferred tax assets	11,413	14,979

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 26 October 2015 and applied from 1 April 2017.

A reduction in the UK corporation tax rate from 19% to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016, and the UK deferred tax asset as at 31st December 2019 has been calculated based on this rate. In the 11 March 2020 Budget it was announced that the UK tax rate will remain at the current 19% and not reduce to 17% from 1 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 increased by circa £1.3m.

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

11 Financial assets at amortised cost

	2019 £ 000	Restated* 2018 £ 000
Amounts due from Group undertakings	182,930	342,357
Other debtors	30,639	25,373
	213,569	367,730

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

	2019 £000	Restated* 2018 £000
Within one year	119,219	284,758
After one year	94,320	82,972
	213,539	367,730

11 Financial assets at amortised cost (continued)

*See note 2.3

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

12 Cash and cash equivalents

	2019 £ 000	2018 £ 000
Cash at bank and in hand	22,543	26,719

13 Share capital

Called up, allotted and fully paid shares

	2019 Number of shares	2019 £	2018 Number of shares	2018 £
Ordinary shares of £1 each	2	2	2	2

14 Pension

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

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

	2019 £000	2018 £000
Present value of scheme obligations	276,914	237,089
Fair value of scheme assets	(235,287)	(209,001)
Deficit for unfunded plans, recorded as a defined benefit obligation	41,627	28,088

14 Pension (continued)

The scheme assets are invested as follows:	2019 £000	2018* £000
Investment assets		
Pooled investment vehicles	165,418	149,184
Equities	53,543	39,652
Bonds	5,609	4,496
Derivatives	45	(89)
Cash	10,672	15,758
Total	235,287	209,001

* On review of the 2018 net scheme assets available for benefits, two investments funds previously presented under Bonds and Equities have been reclassified consistent with their 2019 classification and in line with their underlying investment category.This reclassification had no impact on net assets and no impact upon the fund account.

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

The amounts recognised in the Statement of Profit or Loss and Other Comprehensive Income are as follows:	2019 £000	2018 £000
Past service cost	-	64
Interest recognised on defined benefit obligation	6,757	6,970
Interest income on plan assets	(5,950)	(5,737)
Net interest income	807	1,297
Administrative expenses and taxes	-	344
Total expense recognised in operational expenses in the income statement	807	1,641

Remeasurements:	2019 £000	2018 £000
Effect of change in financial assumptions	41,220	(34,370)
Return of plan assets (excluding interest income)	(25,688)	16,495
Remeasurement of third-party names share of defined benefit contribution	(2,601)	3,056
Total remeasurement included in other comprehensive income in Hiscox Group	12,931	(15,189)
Total defined benefit credit recognised in comprehensive income	13,738	(13,548)

14 Pension (continued)

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

The Group has completed an estimate of the impact of the ruling on the scheme using one of the methods identified by the High Court (C2) for equalising GMPS. The Group has concluded that nothing has occurred during 2019 that would cause the allowance to be amended. Therefore, no charge has been recognised in 2019 (2018:£64,000).

The movement in liability recognised in the Company's balance sheet is as follows:	**2019** **£000**	**2018** **£000**
Defined benefit liability at the beginning of the year	28,088	47,492
Third-party Names' share of liability	(5,173)	(7,954)
Net defined benefit liability at beginning of year	22,915	39,538
Defined benefit cost included in net income	807	1,641
contribution by employer	(2,800)	(2,800)
Charge from third-party Names	(135)	(275)
Total remeasurement included in other comprehensive income	12,931	(15,189)
Net defined benefit liability	33,718	22,915
Third party Names' share of liability	7,909	5,173
Defined benefit liability at the end of the year	41,627	28,088

A reconciliation of the fair value of scheme assets is as follows:	**2019** **£000**	**2018** **£000**
Opening fair value of scheme assets	209,001	226,311
Interest income	5,950	5,737
Contribution by employer	2,800	2,800
Cash flow - Benefit payments	(8,152)	(6,561)
Cash flow - Administration expenses	-	(344)
Increase due to plan contributions		
Remeasurements - return on plan assets (excluding interest income)	25,688	(16,495)
Remeasurements - insurance contract adjustments	-	(2,447)
Closing fair value of scheme assets	235,287	209,001

14 Pension (continued)

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

	2019 £000	2018 £000
Opening present value of obligations	237,089	273,803
Past service cost	-	64
Interest expense	6,757	6,970
Cash flow - benefit payments	(8,152)	(6,561)
Remeasurements - changes in financial assumptions	41,220	(34,740)
Remeasurements - insurance contracts adjustment	-	(2,447)
Closing present value of scheme obligations	276,914	237,089

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

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

	At the balance sheet date		15 years post the balance sheet date	
	2019 Years	**2018 Years**	**2019 Years**	**2018 Years**
Male	27.9	27.9	29.0	28.9
Female	29.0	28.9	30.2	30.1

The weighted average duration of the defined benefit obligation at 31 December 2019 was 21 years (2018: 19 years).

Other principle assumptions are as follows:

	2019 %	2018 %
Discount rate	2.1	2.9
Inflation assumption (RPI)	2.9	3.1
Inflation assumption (CPI)	1.9	2.1
Pension increases	2.9	3.1

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

While management believes that the actuarial assumptions are appropriate, any significant changes to those could affect the balance sheet and income statement. For example, an additional one year of life expectancy for all scheme members would increase the scheme obligations by £11,800,000 at 31 December 2019 (2018: £8,764,000), and would increase the recorded net deficit on the balance sheet by the same amount.

14 Pension (continued)

The most sensitive and judgemental assumptions are the discount rate and inflation. These are considered further below. CPI revaluation in deferment is used for contracted-out members. Contracted-in members are linked to RPI as well as for all pension in payment increase.

The Company has estimated the sensitivity of the net obligation recognised in the balance sheet to isolated changes in these assumptions at 31 December 2019 as follows:

	Present value of unfunded obligations before change in assumptions £000	Present value of unfunded obligations after change £000	Decrease/(increase) in obligation recognised on balance sheet £000
Effect of change in discount rate			
Use of discount rate of 2.85%	41,627	28,076	13,551
Use of discount rate of 2.35%	41,627	86,183	(14,556)
Effect of increase in inflation			
Use of RPI inflation assumption of 3.35%	41,627	46,243	(4,616)
Use of RPI inflation assumption of 2.85%	41,627	37,135	4,492

15 Financial liabilities at amortised cost

	2019 £ 000	2018 £ 000
Amounts due to Group undertakings	202,663	336,675
Other creditors	65,250	87,117
Total trade and other payables	267,913	423,792

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

	2019 £000	2018 £000
Within one year	262,826	399,869
After one year	5,087	23,923
	267,913	423,972

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

16 Related party transactions

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

16 Related party transactions (continued)

Transactions with the immediate and ultimate parent company

	2019 Income £000	2019 Payable £000	2018 Income £000	2018 Payable £000
Hiscox Ltd	5,967	(26,104)	5,483	(28,217)
Hiscox Plc	8,785	(157,300)	4,946	(244,735)

Transactions with associated companies

	2019 Income £000	2019 Receivable £000	2018 Income £000	2018 Receivable £000
Associated companies	293,437	165,528	296,794	280,491

Included within total expenses above are recharges to Lloyd's syndicate 33 of £83,587,000 (2018: £87,034,000). The total amount due from the syndicate at the year-end was £26,397,000 (2018: due from the syndicate £46,900,000).

17 Parent and ultimate parent undertaking

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

The smallest and largest group in which the results of the Company are consolidated is that headed by Hiscox Ltd, Bermuda. There are no other group financial statements including the results of the Company. The consolidated financial statements of Hiscox Ltd are available to the public and may be obtained from: Chesney House, 96 Pitts Bay Road HM 08, Bermuda.

18 Post Balance Sheet Events

During the finalisation of these accounts, Coronavirus (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.
The potential financial impact to the Company arising from COVID-19 mainly relates to the recoverability of the Company's balances due from subsidiary entities (held within financial assets at amortised cost). While there remains significant uncertainty regarding the potential financial impact of COVID-19 on the recoverability of these balances, the Company currently expects these balances to remain fully recoverable. In addition, the recent increase in market volatility and the decline in the interest rate affect the valuation of pension assets and liabilities. The Company has sufficient capital to absorb a net increase in the pension liability.

If the need arises the ultimate parent company is in a position of being able to make capital injections into the Company.