HISCOX

Hiscox Ltd full year results

For the year ended 31 December 2021

"Profitable growth despite elevated natural catastrophe losses"

	2021	2020
Gross premiums written	$4,269.2m	$4,033.1m
Net premiums earned	$2,919.9m	$2,752.2m
Profit/(loss) before tax	$190.8m	$(268.5)m
Earnings/(loss) per share	55.3¢	(91.6)¢
Total ordinary dividend per share for the year	34.5¢	-
Net asset value per share	739.8¢	689.0¢
Group combined ratio	93.2%	114.5%
Return on equity	8.1%	(11.8)%
Investment return	0.7%	2.8%
Positive prior year development	$148.9m	$32.0m

Highlights

- Gross premiums written increased by 5.9% to $4,269.2 million (2020: $4,033.1 million), driven by continued positive rate momentum in all three divisions and strong customer growth in Retail.
- Net premiums written increased by 17.0% in big-ticket businesses as more risk was retained in improving conditions.
- Underwriting profit of $215.6 million (2020: loss of $370.6 million) is the strongest in five years.
- Hiscox London Market gross premiums written up 5.6% and delivered profit before tax of $104.8 million (2020: $155.2 million). Net premiums written increased by 9.5% as more business is retained.
  - Combined ratio of 89.1% reflects the benefits of multi-year underwriting actions undertaken to reduce volatility of returns.
  - Digital innovation with HiscoxPlus suite reaching over $100 million gross premiums written.
- Hiscox Re & ILS gross premiums written up 8.7% and net premiums written up 42.3%; profit of $98.5 million (2020: loss of $35.1 million).
  - Prior year reserve releases together with a material improvement in current year non-catastrophe experience help deliver an excellent combined ratio of 68.0% despite significant natural catastrophe losses.
  - ILS proposition attracts new inflows, $190 million in 2021 and a further $217 million in January 2022. Assets Under Management (AUM) stands at $1.6 billion at 1 January 2022 ($1.4 billion at 31 December 2021), supporting GWP growth into 2022.
- Hiscox Retail gross premiums written grew 5.0% to $2.3 billion (2020: $2.2 billion); Retail underlying business[1] up 6.8% in constant currency.
  - Group digital partnerships and direct (DPD) business grew gross premiums written by 18.2% and now serves over 910,000 customers.
  - US DPD grew by 25.5% to $424 million gross premiums written and now serves circa 520,000 customers.
- Hiscox Retail adjusted combined ratio[2] of 97.3%; on track to meet the target of 90-95% in 2023.
- Favourable current year non-natural catastrophe loss performance and positive prior year reserve releases across the Group off-set above mean natural catastrophe losses, demonstrating the advantage of our balanced strategy and the resilience of our business.
- 15% of 2019 and prior years gross reserves reinsured from up to a 1-in-200 downside risk through two loss portfolio transfer (LPT) transactions.
- Reserves strength at upper range of expectations, with an 11.7% margin above actuarial estimate (2020: 9.8%).
- Investment return of $51.2 million (2020: $197.5 million) impacted by unrealised losses in our bond portfolio in light of rising interest rate expectations.

[1] Adjusted for the reduction in gross premiums written in the US broker channel business over the course of 2021 to strategically reshape the portfolio towards smaller business customers with revenues below $100 million.

[2] 2021 underlying Retail combined ratio excludes loss portfolio transfer costs and Covid-19 net loss impact. 2020 London Market and Retail numbers have been re-presented to reflect reclassification of the Special Risks division.

- 200% Bermuda solvency capital ratio (BSCR), as proactive capital management and strong organic capital generation fully off-set the effect of the final stage of BSCR strengthening implemented by the Bermuda Monetary Authority (BMA).
- Final dividend of 23.0¢ per share.

Aki Hussain, Chief Executive Officer, Hiscox Ltd, commented:

"I am pleased with the strong results the Group has delivered despite elevated natural catastrophe losses, reflecting successful execution of our strategy, and the management actions we have undertaken to improve the performance and quality of our portfolios. Hiscox has a significant technical underwriting capability, which combined with investment in digital, positions us well to capitalise on the many opportunities ahead as we continue to serve our customers and build a sustainable insurance business."

ENDS

A conference call for investors and analysts will be held at 10:30 GMT on Wednesday, 2 March 2022.

Participant dial-in numbers:

United Kingdom (Local): 020 3936 2999
All other locations: +44 20 3936 2999
Participant Access Code: 080097

Inside information

This announcement contains inside information.

The person responsible for arranging and authorising the release of this announcement on behalf of the Company is Marc Wetherhill, Group Company Secretary and General Counsel.

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Notes to editors

About The Hiscox Group

Hiscox is a global specialist insurer, headquartered in Bermuda and listed on the London Stock Exchange (LSE:HSX). Our ambition is to be a respected specialist insurer with a diverse portfolio by product and geography. We believe that building balance between catastrophe-exposed business and less volatile local specialty business gives us opportunities for profitable growth throughout the insurance cycle.

The Hiscox Group employs over 3,000 people in 14 countries, and has customers worldwide. Through the retail businesses in the UK, Europe, Asia and the USA, we offer a range of specialist insurance for professionals and business customers as well as homeowners. Internationally traded, bigger ticket business and reinsurance is underwritten through Hiscox London Market and Hiscox Re & ILS.

Our values define our business, with a focus on people, courage, ownership and integrity. We pride ourselves on being true to our word and our award-winning claims service is testament to that. For more information, visit www.hiscoxgroup.com.

HISCOX

Chairman's statement

I am pleased to report that our skilled underwriters have substantially contributed to a very good result in a period of low investment returns. Joanne Musselle, Group Chief Underwriting Officer, has provided strong leadership and the active portfolio management is producing results. We have strong teams in place to make the most of the opportunities ahead.

The Retail businesses are going well; Hiscox Europe in particular. The UK and USA divisions are making great strides in their direct and partnerships business, where we maintain a strong competitive advantage. Hiscox USA is on track, increasing rates and trimming the portfolio in broker lines. In the UK, the broker business continues to do well particularly in our commercial lines business.

Our big-ticket businesses in London and Bermuda are benefitting from good risk selection and substantial rate rises. Digital initiatives in Hiscox London Market are broadening our appetite and providing new opportunities. In Hiscox Re & ILS, our prudent approach to reserving and discipline in risk selection has delivered an excellent result in another year of higher than average natural catastrophes.

We are in this business for the long term, innovating through deep market expertise, embracing technology, and unafraid to take risks to evolve. In 2021, particularly in the UK, we have had some challenges, but we have learned a lot. Courage is one of our values and we have needed it in 2021, but Hiscox is a stronger business for it in 2022.

We are pleased that our good performance has allowed the Group to resume paying dividends with the 2021 interim results and the Board is pleased to propose a final dividend for 2021 (subject to shareholder approval) of 23 cents per share. The record date for the dividend will be 6 May 2022 and the payment date will be 13 June 2022. The Board proposes to offer a Scrip alternative, subject to the terms and conditions of Hiscox's 2019 Scrip Dividend Scheme. The last date for receipt of Scrip elections will be 20 May 2022 and the reference price will be announced on 30 May 2022.

People

Following Bronek Masojada's decision to retire at the end of 2021, we announced the appointment of Aki Hussain as our new Group Chief Executive Officer back in July. Aki has over 22 years' experience working in financial services and telecoms which we are benefitting from. Having worked with Aki over the last five years I have seen his strong leadership as our Group Chief Financial Officer first-hand, his capable management of the Group's finances in what has been a challenging period for Hiscox and the industry while delivering a highly complex finance transformation programme. Over the years the Board and I have seen the energy, passion and determination with which Aki operates, and this combined with a strategic mindset and clear ambition for building a customer-focussed businesses, means he is well placed to shape our future strategy and capture the vast opportunities ahead.

I would also like to take this opportunity to pay tribute to the outstanding contribution that Bronek has made in leading the strategic development of the Group over the last three decades. I had the pleasure of working with Bronek for over 28 years and throughout that time, his leadership skills, tenacity and desire to build a better business have shone through. With Bronek's energy and commitment, we have overcome some of the biggest challenges the industry has faced, and seized some of the greatest opportunities. His intellect and vision built Hiscox from a small private company to a FTSE 250 with $4 billion of premium – which is an immense achievement.

Following nine years of service, including six as Chair of the Audit Committee, Caroline Foulger will retire from the Ltd Board at the 2022 AGM. I have valued Caroline's counsel greatly over the years and would like to thank her for the passion and challenge she brought to the role. Ahead of Caroline's retirement, Donna DeMaio joined the Board as an Independent Non Executive Director at the end of 2021 and will replace Caroline as Chair of the Audit Committee. Donna has an impressive financial services background and experience of the US market which we will benefit from.

We also strengthened our subsidiary Boards with the appointment of three new Independent Non Executive Directors. Mark Cliff and Jane Hayes joined Hiscox UK while James Illingworth joined Hiscox London Market;

between them they bring a wealth of industry knowledge, underwriting and distribution expertise.

Environmental, social and governance

We take ESG seriously and we have made significant progress this year. The Board has been very supportive and the staff enthusiastic. We started 2021 by approving our ESG exclusions policy which sets out our ambition to reduce steadily, and eliminate by 2030, our insurance, reinsurance and investment exposure to some of the most carbon-intensive industries. We are now embedding the required supporting processes and a dashboard to measure our progress.

We continue to attract and develop top talent: last year we welcomed 644 new permanent employees and made 368 internal promotions. It is thanks to the hard work, ingenuity and flexibility of our colleagues across the globe that we have been able to continue to support our customers and brokers during the pandemic. We paid out $1.25 billion in claims last year across the whole business– from exceptional events like Covid and catastrophes, to the more frequent fires and thefts. We have also contributed very substantially to the restitution of many businesses through indemnifying them following their loss.

We have also served our communities through our charitable work, resulting in $1.5 million being donated to good causes and over 1,000 volunteering hours - from beach clean-ups in Bermuda to plastic fishing on the River Thames.

We continue to focus on improving diversity at all levels. Our 15 employee network chapters play an important part in this, but so too does our diversity reporting. 2021 marked our fifth year of UK gender pay reporting and although our gender pay gap has been steadily reducing since 2017, it continues to be predominantly driven by more men than women holding more senior roles. In this respect it is important to show leadership: our current Board diversity is 55% men and 45% women, and the newly formed Group Executive Committee comprises 40% men and 60% women. There is more work to do throughout the Company but we are on a positive trajectory.

Outlook

Hiscox is a growing company. We aim to grow our top-line profitably in this underwriting climate and continuously attract first-rate talent. We are embracing, and in many cases leading, the digital revolution in insurance and continue to invest. Aki has clear and exciting plans that are motivating our people and which the Board supports.

In the insurance industry, catastrophes can happen at any time, but there is a fair wind behind us and I am looking forward to a great year – we are disciplined, rates are up, we are attracting exceptional talent, and the opportunity ahead of us is huge.

Robert Childs
2 March 2022

HISCOX

Chief Executive's report

On 1 January 2022, I officially assumed my role as the Group Chief Executive Officer of Hiscox and I am pleased to be able to report a strong 2021 result for the Group. Hiscox delivered a pre-tax profit of $190.8 million (2020: loss of $268.5 million) and a combined ratio of 93.2% (2020: 114.5%), despite reserving $223.8 million net of reinstatement premiums for natural catastrophe losses in an elevated catastrophe loss environment. This strong performance is the outcome of proactive portfolio actions undertaken over the last few years to improve our margins.

Bronek Masojada, who retired as Group Chief Executive Officer at the end of 2021, left the business in good shape and I am delighted to be taking the reins at this exciting juncture with plentiful opportunities ahead. In my first CEO statement I would like to share my views on the ambition we have as a business and how we are going to achieve it. I will also provide the usual commentary on business performance in 2021.

Strategy

Our long-standing strategy of balance has served us well through the years, allowing us to generate $4.3 billion of profits over the last two decades, while also seeding and organically growing Retail to the $2.3 billion gross premiums written business it is today. The greater volatility in the big-ticket businesses has been balanced, or offset, by more stable returns in Retail (2020 being the exception when the result was affected by the global pandemic). Excess profits in our big-ticket businesses have been used to fund our Retail expansion. This strategy has allowed the Group to build a solid platform to expand its footprint and product offering through multiple distribution channels, develop a recognised global brand and nurture a reputation as a leading specialist insurer with deep technical expertise.

We remain committed to the concept of balance, however, as our markets are evolving, so too is the way we think about balance. We are in the business of taking calculated risks, so whilst volatility is an inherent feature of our business model, we are also focused on building a business that delivers sustainable, attractive returns. As our strategy continues to evolve, our focus is on building more balanced portfolios within each business, with an increased focus on and use of the Hiscox underwriting ecosystem, which includes underwriting, pricing, claims analytics, reserving, research and modelling, in our chosen lines of business.

The fundamentals of our strategy remain unchanged: we continue to have strong competitive positions in all our business segments, but managing volatility across the Group will pave the way to maximising the long-term structural growth opportunity we have in our Retail businesses. Our purpose is 'to give people and businesses the confidence to realise their ambitions' and this remains core to our strategy.

In summary, this is strategic evolution as we evolve our business model to make the most out of the opportunity in each of our businesses, with each playing a critical role in what it brings to the Group and our strategic ambitions. I think about our business in four component parts – Retail digital, Retail traditional, London Market and Re & ILS[1]. Each component faces unique opportunities and challenges, which informs the role that each will play in our future growth and success, underpinned by our long-term investment in both underwriting and digital expertise.

Retail digital – significant structural growth opportunity

Retail digital presents the Group's most significant long-term structural growth opportunity. This business has benefitted from the secular trends in society where our customers and partners increasingly want to deal with us digitally. Across our geographies, there are approximately 50 million SMEs, so the market is huge and we are barely scraping the surface of the opportunity ahead, I expect our digital platforms to grow strongly for many years to come.

In this new and emerging landscape, Hiscox has developed market-leading capabilities including products designed to meet customer needs, strong brand awareness, an underwriting ecosystem and investment in technology; this has enabled a significant part of the value-chain to be automated while delivering superb customer service. Capturing this opportunity is not simply about deploying cool technology, we are underwriters first and foremost, technical rigor and disciplined risk management are a prerequisite. We see technology as being an

[1] These are Group strategy business components. Accounting segmentation, which reflects how the businesses are managed, remains unchanged, as represented in 2021 financial performance sections.

enabler, allowing Hiscox to access new markets in new ways. Through long-term investment Hiscox now has market-leading platforms in the USA and UK and an emerging digital business in Europe. The opportunity is particularly significant in the USA where we believe we will continue to win in the long run, becoming one of the dominant players, so it makes clear strategic sense to continue investing in this business.

Building scale is important, not just for operating leverage and cost efficiency, but to drive further growth. Expanding our customer base will make us into an increasingly attractive distribution partner. Over time our objective is to build a marketplace for our customers, offering a broad range of insurance products catering for all their key needs. Some of these products Hiscox will underwrite on our own balance sheet, while others we will offer through our expanding range of reputable partners. The aim is to create a small business commercial insurance marketplace in which Hiscox is a central and meaningful player.

Our confidence in being able to succeed comes from the strength of our core Group capabilities – our powerful brand, the cross-divisional fertilisation of data and analytics to improve underwriting decisions and our ability to selectively invest from the Group's capital pool to keep our client service and scalability of platform market-leading.

Retail traditional - source of continued growth and profitability for the Group

Our Retail traditional business, which is distributed and serviced through the traditional non-digital channels, has been the backbone of growth and profitability for the Retail division and in recent years for the Group (with the exception of 2020 that was affected by the pandemic) as we have traded through challenging market conditions in our big-ticket businesses.

Over the years we have built this business carefully by being specialists in attractive and large niches, getting to know our customers' needs intimately, building strong distribution partnerships, maintaining robust risk selection and delivering excellent customer service. We operate in meaningful niches with material further growth potential, whilst we also explore new adjacent niches with specialist distribution partners, into which the business can expand. This business will continue to evolve: for instance, we are in the process of reshaping our US broker channel book to focus on smaller business, and we are making changes to further improve our broker service model in the UK. This is all part and parcel of building a sustainably profitable business. This business will continue to provide growth and most of the Retail profits over the next five years.

Hiscox London Market – underwriting pedigree meets trading innovation

Hiscox's roots lie in the London Market. This is our heritage and where we have built a tremendous track record of delivery. Our business continues to evolve as we develop deeper underwriting expertise and data analytics in our specialist areas. We now lead over two-thirds of the business we write in premium terms, compared to just over a half four years ago. This ensures we have much more control of the business and the terms on which it is being written, in short, the Hiscox underwriting ecosystem is driving decisions. I am also excited about Hiscox London Market pioneering digital underwriting and distribution in the Lloyd's market with its HiscoxPlus suite of products reaching a critical mass of over $100 million of gross premium written. While this is still a small proportion of Hiscox London Market's top line, digital distribution and auto-underwriting will continue to grow in both importance and quantum in the years to come, and in 2022 we expect this business to double to over $200 million.

Hiscox London Market provides cyclical growth opportunities, expanding and shrinking as market conditions change. Since 2017 conditions have been improving and we now enjoy rate adequacy in all of our lines. We have used these improving market conditions to create a better-balanced portfolio of business, improve terms and conditions, expand margins and grow net revenues in business lines with better risk-adjusted returns. As I look forward, the improved balance and control, combined with stronger margins and therefore resilience in the portfolio position us well for generating attractive risk-adjusted returns through the cycle.

Hiscox Re & ILS - specialist capabilities complemented by third-party capital model

Hiscox Re & ILS is also part of our heritage and once again a business that has had an excellent long-term track record. This business operates in a market where conditions are cyclical, although the shape of the cycle has changed over the last decade. The development of insurance-linked securities (ILS) platforms has resulted in new and efficient capital coming into the market. We have capitalised on this opportunity and Hiscox Re & ILS has built a successful ILS proposition, providing a mechanism for lowering the cost of capital for the business and providing a means of scale in specialist areas in which the business participates.

Market conditions have significantly improved, although further rate increases are necessary in some areas to genuinely achieve satisfactory returns through the cycle. We have used the last few years to refocus on business lines in which we have deep expertise, thereby creating a balance which is consistent with our underwriting expertise. This combined with improving market conditions is increasing the resilience of the portfolio and creates the capacity to grow in lines where the returns are stronger. Looking forward, the improved resilience in the portfolio, together with the growth of ILS AUM, is expected to drive much-improved generation of capital and profits through the cycle.

These component parts of our business enjoy a symbiotic relationship. The development of market-leading underwriting capabilities, deep relationships, innovation and entrepreneurial drive have traditionally come from the big-ticket businesses. In recent years, operational know-how, new-generation digital technology, data analytics and the auto-underwriting expertise of the Retail digital business have been supporting growth in the rest of the Group. It is this ecosystem wrapped in the unique culture of Hiscox that is a source of strength and has helped the business to withstand the external challenges of recent years in order to continue to deliver a resilient performance.

Turning to the 2021 financial result.

Rates

Rate momentum continues to be favourable across all business divisions. However, as the rating cycle unfolds at a different pace, the dynamic is slightly different by business segment.

Hiscox London Market began benefitting from rate increases as early as 2017 and has seen a cumulative rates increase of 60%. In 2021, we saw a 13% average rate improvement. While rate growth is continuing, the speed of increase is now slowing in all lines except cyber. This is particularly pronounced in US public company D&O and US general liability, although the overall rate adequacy remains significantly above the loss experience and expectation. We expect this trend to continue in 2022 with momentum slowing further; however, rate adequacy remains solid and rates are likely to remain in positive territory growing by mid-single digits.

For Hiscox Re & ILS the market started to turn slightly later but the business has achieved a cumulative rate increase of 35% since 2017. In 2021, Re & ILS saw an average rate increase of 8%. European floods in July, Hurricane Ida's landfall in August and US tornadoes in December were once again a useful reminder of the risks borne by property catastrophe reinsurers. As a result, we have seen better underwriting discipline and further rate strengthening in North American property lines, risk, retro, marine and specialty as well as loss-impacted European business. At the January 2022 renewals we saw 10% reinsurance rate growth, however, it is our view that further increases are necessary to achieve satisfactory returns through the cycle in all property lines. In light of this, Hiscox Re & ILS will continue to be disciplined to ensure the business we write is sufficiently rated to make a sustainable profit.

Hiscox Retail is generally less cyclical business with rates less prone to extreme fluctuations, yet in 2021 Retail rates increased by 5% on average. This was led by Hiscox UK with rates up 7% and Hiscox USA, where rates in the broker business grew 10%. Even in Hiscox Europe, where rate increases are typically dampened by tacit renewals, we saw increases of 4% on average. Across all regions Retail rate increases are at least adequate or in excess of loss experience and expectation, resulting in sustained or expanding margins.

Across all our business segments, through a combination of an indexed increase to exposure data and increasing rates, we believe we are achieving premium growth in excess of inflation expectations.

Claims

2021 was another year with above-mean natural catastrophe losses. The Group has reserved $223.8 million net of reinstatement premiums, with Hiscox Re & ILS most impacted. In Hiscox London Market we reduced the property catastrophe exposure in 2021 as we made a conscious choice not to write business where pricing is not deemed adequate. In Hiscox Re & ILS, we continued the re-underwriting action commenced in 2020 as we further reduced our exposure to aggregate covers and increased attachment levels.

In 2021, we saw a continuation of heightened threats in cyber and fine-tuned our cyber appetite, focusing our SME business within Retail, reducing our exposure to ransomware events in Hiscox London Market and reducing cyber aggregate exposure. The Hiscox CyberClear Academy, our free online training program for our smaller customers, goes from strength to strength: we have now enrolled over 30,000 customers across the geographies in which we operate. Our dedicated central cyber team continues to support our cyber underwriters across the Group, delivering training to our underwriting and claims teams. We now have nearly 20 employees who have gained external cyber security certifications. We have also added significant new features to our Hiscox Cyber Insight tool to support underwriting decisions, including integration with Microsoft Secure Score, which allows us to streamline questions for customers, and gain far greater insight into our customers' security position.

Throughout 2021, we worked closely with customers and brokers in the UK to pay business interruption claims as quickly as possible. As of 31 January 2022, 84% of the claims notified had received an outcome and we expect to maintain the current claim settlement momentum to resolve the outstanding claims. The business interruption claims in aggregate continue to settle within the actuarial best estimate and in addition we continue to hold conservative margin above the best estimate.

The UK business interruption book has now been fully renewed with the appropriate pandemic exclusion terms. We have maintained continuous and transparent dialogue with our reinsurance panel throughout this period and the reinsurance recoveries are now being collected.

Hiscox Retail

Hiscox Retail comprises our retail businesses around the world: Hiscox UK, Hiscox Europe, Hiscox USA and Direct Asia. In this segment, our specialist knowledge and retail products differentiate us and our ongoing investment in the brand, distribution and technology reinforces our strong market position in an increasingly digital world.

Hiscox Retail grew gross premiums written by 5.0%, or 1.5% in constant currency. Our commercial businesses, which constitute over three quarters of the Retail portfolio in gross premiums written terms, grew strongly across all geographies. This was partially offset by slower momentum in personal lines and the impact of deliberate portfolio actions in the US broker channel to reposition the business towards smaller customers. We have now exited over $100 million of the non-core US business and, adjusting for this, the Group Retail underlying portfolio grew by 6.8% on a constant currency basis.

Hiscox DPD business grew gross premiums written by 18.2% in constant currency to $694 million and now serves over 910,000 customers. In the USA our DPD business grew 25.5% and it now represents almost two-thirds of our global DPD business.

With the more significant portfolio action largely executed in the broker channel, the headline growth rate is expected to trend back towards the middle of the 5% to 15% range for the Retail division in 2022.

Together with delivering robust growth, the Retail business has achieved an underlying combined ratio of 97.3%, a 2.6 points improvement on prior year, despite sustaining a net natural catastrophe loss of $34 million net of reinstatement premiums. This underpins our confidence that we are on track to return to the 90%-95% combined ratio range in 2023.

Gross premiums written	$2,290.0 million (2020: $2,180.0 million)
Profit before tax	$54.9 million (2020: loss of $295.6 million)
Combined ratio	98.9% (2020: 123.4%)
Combined ratio excluding Covid-19 and loss portfolio transfer cost	97.3% (2020: 99.9%)

Note: Numbers have been re-presented to reflect reclassification of the Special Risks division.

Hiscox UK

Hiscox UK provides commercial insurance for small- and medium-sized businesses as well as personal lines cover, including high-value household, fine art and luxury motor.

Hiscox UK gross premiums written of $831.1 million (2020: $756.1 million) are up 9.9% or 2.9% on a constant currency basis. The business has delivered a resilient performance, despite the ongoing impact of Covid-19 on events and art exhibitions. The commercial lines business is showing strong growth of 9.9% in constant currency, boosted by rate improvements, maintaining good retention rates and adding a net 45,000 customers. Rate increases were achieved across the portfolio of commercial business led by cyber and professional indemnity lines. In our personal lines business, which includes art and private client and direct home, we have taken deliberate action to rebalance the portfolio and non-renew some of the higher commission business. As a result, we have seen premiums reduce by 4.9% in constant currency, however, this action will improve our business returns. The personal lines business is expected to return to growth in 2022.

The non-natural catastrophe loss performance has been better than the prior year, with a particularly benign first half and return to a more normal claims frequency in the second half.

The outlook for Hiscox UK is positive, with opportunities to continue growing in our established niches such as technology, consultants and other emerging professions, where Hiscox's competitive advantage is strong and the opportunity is the most attractive. In 2022, we expect to increase our investment in marketing to build affinity with new audiences and accelerate the ongoing positive growth of the digital acquisition channel.

Hiscox Europe

Hiscox Europe provides personal lines cover, including high-value household, fine art and classic car; as well as commercial insurance for small- and medium-sized businesses.

Hiscox Europe delivered another strong top-line performance, growing gross premiums written by 9.8% in constant currency to $532.0 million (2020: $461.1 million). Rates are up 4% on average, with double-digit rate increases in cyber, commercial property and traditional professional indemnity. A large share of the European book renews in January and our underwriters have been focusing on improving rate adequacy in cyber.

Hiscox Germany, Benelux and Iberia, which together constitute around 60% of Hiscox Europe's gross premiums written, all grew top line at double-digit rate in constant currency, underpinned by healthy growth in commercial lines. Hiscox France, our second largest European business, grew gross premiums written by 5.9% in constant currency despite the impact of continuing course correction actions and delivered strong new business growth. Ireland's performance is up 4.4%, as the business continues to undertake re-underwriting actions.

Europe's DPD business is relatively nascent with gross premiums written of just over $50 million and is growing well. The digital opportunity in Europe is attractive with around 11 million SMEs in the markets where we operate and about a half of these being our target customers. Hiscox Europe started its direct digital business first in France, almost a decade ago, followed by Germany. In June 2021, the Netherlands became the latest market to launch a digital proposition. Europe DPD is an excellent example of leveraging cross-market expertise and infrastructure with the businesses using common technology and sharing product expertise and marketing collateral.

Similar to the UK, the non-natural catastrophe loss performance has been in line with expectations.
The roll-out of the new core technology is progressing well in Germany and France and we continue to enhance our data infrastructure to drive more sophisticated underwriting and pricing.

Hiscox USA

Hiscox USA focuses on underwriting small commercial risks with distribution through brokers, partners and direct-to-consumer using both traditional and digital trading models. Our aspiration remains to build America's leading small business insurer.

Hiscox USA saw gross premiums written decline 3.9% to $879.2 million (2020: $914.6 million). This is in line with our expectations and previous guidance, as a result of planned reductions in our US broker channel. We have now exited over $100 million of large cyber, stand-alone general liability and other broker channel business which is no longer within our appetite. This number is slightly higher than originally indicated, as we successfully accelerated our exit plans in certain portfolios. Excluding the effect of the course correction actions in 2021, Hiscox USA underlying portfolio grew by 9.2%.

Our US digital partnerships and direct business continues to deliver excellent performance, with the top line growing 25.5% to $424 million, continuing the excellent growth rate achieved the year before. In the first half of the year US DPD grew at 30%, above our expectations, as the business benefitted from the pent-up demand, with the second half more in line with the sustainable growth rate. We have added around 90,000 customers in 2021 with approximately 520,000 now insured. Over 80% of our new customers accessed us digitally and over 90% of new policies were auto-underwritten.

The US digital partnerships business is growing particularly well, as we are benefitting from distribution relationships with over 140 partners. As our business matures and our brand strengthens, more and more of our premium is coming from larger producing partners, which contribute over a million of revenue per annum to Hiscox. Over the last three years the number of these large partners almost doubled to 41 today. One example of such partnership is with Amazon. In August, Hiscox joined a small network of insurance providers to offer general liability insurance to businesses selling in Amazon's marketplace through our existing platform integrations with Bold Penguin and Simply Business.

The US DPD business started 2022 with continued strong growth, however this is expected to moderate through the third quarter as we take deliberate action to limit new business to facilitate the migration of our partners and existing policy holders from our legacy policy administration system to our modernised next-generation platform. The new technology will offer a wider product portfolio, improved data collection, better underwriting analytics, upgraded pricing capability and enhanced digital experience for agents and customers. An expanded business owners' policy (BOP) and new cyber product are being launched as part of the new technology roll-out. The migration requires the deliberate slowdown of growth, as we bed in new systems, appetite, products and rating, we expect to complete the process by the end of the year and begin to realise the full benefits of this multi-year technology investment as we head into 2023. In 2022 we expect full year US DPD growth of between 15% to 20%.

Hiscox Asia

Despite the challenges of Covid-19 lockdowns in its two Asian markets alongside lower customer demand and aggressive discounting by competitors, DirectAsia delivered gross premiums written of $47.7 million (2020: $48.2 million), broadly in line with 2020, as the fourth quarter saw a recovery in revenues. DirectAsia launched brand enhancements campaigns in Singapore and Thailand in November which will continue to run throughout 2022. A reduced claims frequency during the lockdowns together with the continued focus on profitability has resulted in an improved underwriting result.

Hiscox London Market

Hiscox London Market uses the global licences, distribution network and credit rating of Lloyd's to insure clients throughout the world.

Gross premiums written	$1,171.4 million (2020: $1,109.7 million)
Profit before tax	$104.8 million (2020: $155.2 million)
Combined ratio	89.1% (2020: 89.2%)

Note: Numbers have been re-presented to reflect reclassification of the Special Risks division.

Hiscox London Market delivered a strong performance in 2021, despite the above-mean natural catastrophe losses. Our underwriters have been working tirelessly to deliver 13% average portfolio rate growth in 2021, with 16 of our 17 lines enjoying price rises and 11 lines benefitting from double-digit rate increases. Gross premiums written grew 5.6% to $1,171.4 million (2020: $1,109.7 million), as we continued to execute course correction actions in the property binder portfolios, and build a more balanced and resilient portfolio.

Importantly, net premiums written grew by 9.5%, almost two times faster than top line, as the strong rate momentum made retaining more premium attractive.

Hiscox London Market incurred $68.1 million of natural catastrophe losses in 2021 net of reinstatement premiums, mainly from Hurricane Ida, US tornadoes and Storm Uri. In contrast, non-catastrophe experience in London Market was favourable in the first three quarters of the year, albeit several large cyber and casualty losses occurred in the last two months of 2021.

It is particularly pleasing that Syndicate 33 our flagship Lloyd's syndicate achieved a 82.5% combined ratio in 2021 calendar year, the best result since 2016.

We are making good progress on digital distribution and underwriting. Hiscox London Market's digital strategy started in 2016 with the launch of FloodPlus which offers flood cover to commercial and residential properties in the USA across 49 states as an alternative to the National Flood Insurance Program (NFIP) product. In 2020, we further expanded our product range by launching FloodPlus Excess, offering additional cover in excess of the NFIP. In the five years since inception, FloodPlus has grown to form the majority of our $100 million flood book with 70,000 customers. Twenty-eight of our coverholder partners are seamlessly connected to our FloodPlus API service that uses advanced algorithms to deliver bindable quotes in less than ten seconds and it is currently averaging 17,000 quotes per week. FloodPlus has advanced risk management capability, allowing the control of aggregate exposure to an extremely granular level. This approach combined with the ability to adjust prices in real time allows the generation of optimal spread of risk through the portfolio.

In 2020, we launched BindPlus Residential which offers private property insurance with coverage for wind, earthquakes, wildfires and any other perils. In March 2021 we extended our BindPlus API offering by launching BindPlus Commercial, supplementing the flood and the household products already on the platform. Our plan for 2022 is to streamline the platform technology and scale it to meet the growth ambition we have for this business.

In February 2022, Helen Rose assumed her role as Chief Financial Officer of Hiscox London Market and Hiscox Syndicates Limited. With more than a decade in the insurance industry, Helen held a number of roles with Aspen Group, including Insurance CFO, UK CFO and most recently Chief Accounting Officer.

Hiscox Re & ILS

The Hiscox Re & ILS segment comprises the Group's reinsurance businesses in London and Bermuda and insurance-linked security (ILS) activity written through Hiscox ILS.

Gross premiums written	$807.8 million (2020: $743.4 million)
Net premiums written	$274.2 million (2020: $192.7 million)
Profit before tax	$98.5 million (2020: $(35.1) million)
Combined ratio	68.0% (2020: 131.8%)

Gross premiums written increased by 8.7% to $807.8 million (2020: $743.4 million), however, excluding reinstatement premiums, premiums are down 0.4% year on year, as an improved rating environment has been offset by re-underwriting actions in risk and pro-rata and aggregate books. Importantly, net premiums written grew by 42.3% as we deployed more capital into an improving rating environment, which will build earnings power into 2022. Hiscox Re & ILS made a profit of $98.5 million and achieved combined ratio of 68.0%; this is an excellent result.

Hiscox Re & ILS business delivered $91.1 million of underwriting result, as a strong non-catastrophe loss experience and favourable prior-year movements in our Japan and risk books more than offset the elevated net natural catastrophe losses of $122.0 million net of reinstatement premiums in the period.

Since 2016, Hiscox Re & ILS has non-renewed $378 million of non-profitable business, having fully exited casualty and healthcare and significantly reduced risk exposure. In property, we have reduced the aggregate and bottom layer exposures on North American catastrophe business, most notably in Florida, and our Japanese typhoon exposure is 23% less than it was three years ago. In cyber, ahead of the market, we exited some low attaching risks to reduce exposures to increasing ransomware attacks while our core stop loss product continued to benefit directly from the significant improvements in the underlying rate adequacy. In short, we have rebalanced the book to align to our expertise and create more resilience whilst also driving rate improvement and margin expansion.

Our ILS proposition has attracted new inflows, $190 million in 2021 and a further $217 million in January 2022. AUM stands at $1.6 billion at 1 January 2022 ($1.4 billion at 31 December 2021), supporting gross premiums written growth into 2022.

Matthew Wilken joined the business as our new Chief Underwriting Officer in January 2022. He joins from MS Amlin Underwriting Ltd, where he held the Head of Reinsurance role. Matthew spent his early career at Kiln Syndicate, Argo Re and Ariel Re. With his underwriting acumen and a strong market reputation, we are delighted to be further strengthening our underwriting and executive teams.

Dividend, capital and liquidity management

The Group remains strongly capitalised against both regulatory and rating agency requirements. The Hiscox Group Bermuda solvency capital requirement (BSCR) ratio is estimated at 31 December 2021 at 200%, a 13 percentage point improvement on the prior year. The 11 percentage point impact of the final stage of strengthening of the formula (an industry-wide basis strengthening implemented by our Group regulator, the Bermuda Monetary Authority) was more than offset by a combination of strong organic capital generation and 13 percentage points of benefit from proactive capital management through LPT transactions executed in the period. On an S&P basis we remain well capitalised to maintain an A rating. S&P are in the process of updating their capital model, as a result of this Hiscox is expected to benefit from recognition of risk diversification benefit in our business model and conservative reserve margin.

During 2021 and into 2022, we have continued to proactively take action to limit profit volatility from the back-book, in particular where we have decided to exit the business. In the first half of 2021, the Group undertook two LPT transactions, covering legacy healthcare claims in Bermuda and the selected lines of Hiscox Syndicate 3624, including the majority of Hiscox USA's surplus lines broker business. The two transactions cover 15% of 2019 and prior years' gross reserves, and will remove potential reserve volatility from longer tail lines which we have mostly exited in the coming years, thus allowing management to focus on the opportunities presented by the good trading conditions we have ahead of us. This together with the substantial reserve margin above the actuarial best estimate demonstrates our resilient foundations.

The Board believes that paying a dividend is one important indicator of the financial health of the Group. Having carefully considered the capital requirements of the business, the Board has recommended to shareholders for approval the payment of the final dividend at 23.0 cents per share. This brings our total dividend for the year to 34.5 cents per share. The record date for the dividend will be 6 May 2022 and the payment date will be 13 June 2022. The Board proposes to offer a Scrip alternative, subject to the terms and conditions of Hiscox's 2019 Scrip Dividend Scheme. The last date for receipt of Scrip elections will be 20 May 2022 and the reference price will be announced on 30 May 2022. Further details on the dividend election process and Scrip alternative can be found on the investor relations section of our corporate website, www.hiscoxgroup.com.

Investments

We manage our investment portfolio with two main objectives in mind: providing sufficient liquidity to pay claims and providing capital to support the underwriting business, while generating strong risk-adjusted returns.
Given the depressed yield on our short-dated bond portfolio at the start of the year, and the rising rate environment during 2021 driving mark to market losses, investment returns were subdued at $51.2 million (2020: $197.5 million) after investment expenses, a return of 0.7% (2020: 2.8%). Assets under management at 31 December 2021 were $7.3 billion (December 2020: $7.6 billion).

Despite global supply chain pressures and intermittent pandemic-driven lockdowns, the strong global economic recovery saw equity markets deliver strong returns over the year. While bond markets were initially calmed by reassurance from central banks that inflationary pressures were temporary, the latter part of 2021 saw sharper increases in bond yields as central banks started to scale back asset purchases and indicate that they would implement tighter interest rate policy going forwards.

Government bond yields increased over the period, however, they remain depressed relative to historical levels and credit spreads for high-quality bonds remain near their historical lows. The yield to maturity on the bond portfolio improved in 2021, but remained modest at 1.0% at end December 2021 (December 2020: 0.4%).

Central banks have started to tighten monetary policy since the year end, and markets are pricing in several rate rises through 2022 and government bond yields have shifted sharply higher at shorter maturities. The resulting temporary mark to market losses on our short-dated bond portfolios will make a considerable dent in 2022 investment returns, but we are pleased that the interest rate environment has started to normalise, markedly improving reinvestment opportunities in the longer term.

Year to date, our bond portfolio yield has risen to 1.7%, up from 1.0% at end December 2021. The short-dated nature of our investment portfolio means we will be able to reinvest maturities at higher rates to capitalise on the higher yield environment during 2022, however, this will be partly offset by mark to market losses in the short term. The outlook for 2023 is now looking brighter with respect to investment income and we continue to look through ongoing volatility to steadily invest into diversifying positions where valuations present attractive long-term risk and capital-adjusted outcomes.

People

Hiscox could not have become the business it is today without the contribution of its dedicated, resourceful and talented people; our future success fully rests on our people. It is a key competitive advantage that we have and I am fully committed to nurturing and investing in our people. I am also pleased to welcome new world-class talent to the Group. In December, we announced Paul Cooper was appointed as Group Chief Financial Officer, subject to regulatory approval. Paul has over 25 years of financial services experience across both the retail and Lloyd's insurance markets and his broad commercial acumen as well as his audit, regulatory and capital markets experience will help us capture the many opportunities ahead.

In February 2022, Jon Dye was appointed to become the new UK Chief Executive Officer, effective September 2022, subject to regulatory approval. Jon has held a number of senior roles within the industry, most recently as CEO of Allianz UK for eight years. He also served as Chair of the ABI between 2019 and 2021, and as such has driven industry collaboration on issues including the industry's response to the pandemic, FCA fair pricing review and climate change. Jon is a recognised industry leader with solid CEO experience and I look forward to working with him as part of our Group Executive Team.

Hiscox has always had a differentiated culture and we are keen to preserve its unique nature, such as a sense of proprietary ownership, entrepreneurial spirit, empathy for each other, customers and partners. At the same time, we are entering a new stage of our journey, so our culture will evolve as we become a larger business. I am keen for our people to be clear about the role they play in the overall Group strategy and how they are contributing to our joint future success.

With this in mind I have created a single Group Executive Committee, with five business unit CEOs complemented by five functional leaders, including the new role of a Group Chief Operating Officer. Our new executive leadership team will ensure increased collaboration between business units and Group functions and will steer coordinated execution of the Group strategy.

Environmental, social and governance

ESG matters at Hiscox; it is why we were a founding member of ClimateWise, a public supporter of the Task Force on Climate-related Financial Disclosures (TCFD) and a signatory to the 2015 Paris Agreement. We made good progress on ESG issues in 2021, but of course there is more still to do.

On the environmental side, we made new greenhouse gas (GHG) emission reduction commitments, using Science Based Targets initiative (SBTi) methodologies, that align with a 1.5°C net-zero world by 2050. These include reducing our Scope 1 and 2 emissions by 50% by 2030; reducing our operational Scope 3 emissions by 25% per FTE by 2030; and transitioning our investment portfolios to net zero by 2050. The aim is that more than 25% of our corporate bond portfolio by invested value will have net-zero/Paris-aligned targets by 2025, and more than 50% by 2030. Our new commitments also include engaging with our suppliers, brokers and reinsurers on our net-zero targets as well as their own, and monitoring emerging standards around underwritten emissions so we can align with best practice as it emerges. We will share periodic updates on our progress towards accomplishing these ambitions, and remain operationally carbon neutral through offsetting, as we have been since 2014.

In addition, our ESG exclusions policy – which sets out our ambition to reduce steadily and eliminate by 2030 our insurance, reinsurance and investment exposure to coal-fired power plants and coal mines; Arctic energy exploration, beginning in the Arctic National Wildlife Refuge region; oil sands; and controversial weapons – officially came into force on 1 January 2022. Our big-ticket risks are now categorised by ESG status and we have developed new underwriting dashboards that provide live views of our exposure to excluded sectors; steps that enabled us to start declining out-of-scope risks ahead of time. In investments, we have been embedding a range of ESG requirements in segregated investment manager mandates and have already eliminated all direct exposures outside of appetite. This, alongside the semi-annual ESG reviews we have established with our managers, has enabled our investment in sustainable and impact assets including green bonds to reach over $250 million.

When it comes to social, I think of this in three parts: customers, colleagues and communities. We paid $1.25 billion in claims during the year, but we also helped our customers to actively manage risk through tools such as our CyberClear Training Academy. For colleagues, we continue to focus on improving diversity at all levels. Our 15 employee network chapters – encompassing Latino and Pan-African communities, WeMind, Pride, and parents and caregivers – play an important part in this, but so too does our diversity reporting. 2021 marked our fifth year of UK gender pay reporting and although our gender pay gap has been steadily reducing since 2017, it continues to be predominantly driven by more men than women holding more senior roles. I am pleased to see our current Board diversity reach 55% men and 45% women, and my newly formed Group Executive Committee comprises 40% men and 60% women, but equally I recognise we have more to do here. And finally, our communities, where the combination of Hiscox Gives (our fundraising and volunteering arm), the Hiscox Foundation (our charitable foundation) and our employee-led green teams continue to drive a range of socially responsible initiatives – from beach clean-ups in Bermuda to plastic fishing on the River Thames. In 2021 this work resulted in $1.5 million donated to good causes and over 1,000 volunteering hours.

In governance, we boosted our existing commitments by becoming members of the Principles for Responsible Investment (PRI) – both as an asset owner and asset manager – and the Principles for Sustainable Insurance (PSI). We also strengthened our existing ESG oversight structure with the formation of our Sustainability Steering Committee (SSC), bringing new senior expertise to our activities. The SSC is responsible for executing our ESG strategy across our operations, driving actions and delivery at a Group level, tracking our sustainability performance over time, and identifying relevant risks and opportunities – with an initial focus on climate change. I am pleased to chair the SSC and personally contribute to our sustainability agenda.

Outlook

I am optimistic about the outlook for 2022. Cumulative rate increases over a number of years in our big-ticket businesses have created the opportunity to build balanced portfolios with improved margins and resilience and the profit outlook is positive. Our Retail business is very well placed to drive significant growth into large and underserved markets. With much of the course correction complete, I expect this to lead to strong headline growth, improving profitability and we remain on track to achieve the 90% to 95% combined ratio target in 2023.

While the recent extreme weather events are a stark reminder that we live in an unpredictable world, the re-underwriting actions we have undertaken mean our business portfolio is less volatile and more resilient; and we are strongly capitalised with sufficient financial flexibility to support our growth ambitions.

Finally, I would like to thank our employees, business partners and shareholders for their continued support.

Aki Hussain
2 March 2022

HISCOX

Additional performance measures (APMs)

The Group uses, throughout its financial publications, additional performance measures (APMs) in addition to the figures that are prepared in accordance with UK-adopted International Accounting Standards. The Group believes that these measures provide useful information to enhance the understanding of its financial performance. These APMs are: combined, claims and expense ratios, return on equity, net asset value per share and net tangible asset value per share and prior-year developments. These are common measures used across the industry, and allow the reader of our Annual Report and Accounts to compare across peer companies. The APMs should be viewed as complementary to, rather than a substitute for, the figures prepared in accordance with accounting standards.

Combined, claims and expense ratios
The combined, claims and expense ratios are common measures enabling comparability across the insurance industry that measure the relevant underwriting profitability of the business by reference to its costs as a proportion of its net earned premium. The Group calculates the combined ratio as if the Group owned all of the business, including the proportion of Syndicate 33 that the Group does not own (Group controlled income). The Group does this to enable comparability from period to period as the business mix may change in a segment between insurance carriers, and this enables the Group to measure all of its underwriting businesses on an equal measure. The calculation is discussed further in note 6, operating segments. The combined ratio is calculated as the sum of the claims ratio and the expense ratio.

Return on equity (ROE)
Use of return on equity is common within the financial services industry, and the Group uses ROE as one of its key performance metrics. While the measure enables the Company to compare itself against other peer companies in the immediate industry, it is also a key measure internally where it is used to compare the profitability of business segments, and underpins the performance-related pay and pre-2018 shared-based payment structures. The ROE is shown in note 8, along with an explanation of the calculation.

Net asset value (NAV) per share and net tangible asset value per share
The Group uses NAV per share as one of its key performance metrics, including using the movement of NAV per share in the calculation of the options vesting of awards granted under Performance Share Plans (PSP) from 2018 onwards. This is a widely used key measure for management and also for users of the financial statements to provide comparability across peers in the market. Net tangible asset value comprises total equity excluding intangible assets. NAV per share and net tangible asset value per share are shown in note 7, along with an explanation of the calculation.

Prior-year developments
Prior-year developments are a measure of favourable or adverse development on claims reserves that existed at the prior balance sheet date. It enables the users of the financial statements to compare and contrast the Group's performance relative to peer companies. The Group maintains a prudent approach to reserving, to help mitigate the uncertainty within the reserve estimates. The prior-year development is calculated as the positive or negative movement in ultimate losses on prior accident years between the current and prior-year balance sheet date, as shown in note 13.

Condensed consolidated income statement

For the year ended 31 December 2021

	Note	**2021 Total $m**	2020 Total $m
Income			
Gross premiums written	6	**4,269.2**	4,033.1
Outward reinsurance premiums		**(1,314.2)**	(1,282.7)
Net premiums written		**2,955.0**	2,750.4
Gross premiums earned		**4,246.9**	4,071.2
Premiums ceded to reinsurers		**(1,327.0)**	(1,319.0)
Net premiums earned		**2,919.9**	2,752.2
Investment result	9	**51.2**	197.5
Other income	10	**56.8**	50.2
Total income		**3,027.9**	2,999.9
Expenses			
Claims and claim adjustment expenses		**(2,185.5)**	(2,966.5)
Reinsurance recoveries		**755.1**	1,043.8
Claims and claim adjustment expenses, net of reinsurance		**(1,430.4)**	(1,922.7)
Expenses for the acquisition of insurance contracts		**(1,017.9)**	(1,002.9)
Reinsurance commission income		**283.2**	289.0
Operational expenses	10	**(622.7)**	(573.0)
Net foreign exchange gain/(loss)		**0.7**	(14.5)
Total expenses		**(2,787.1)**	(3,224.1)
Results of operating activities		**240.8**	(224.2)
Finance costs	11	**(50.8)**	(44.0)
Share of profit/(loss) of associates after tax		**0.8**	(0.3)
Profit/(loss) before tax		**190.8**	(268.5)
Tax expense	12	**(1.3)**	(25.2)
Profit/(loss) for the year (all attributable to owners of the Company)		**189.5**	(293.7)
Earnings per share on profit/(loss) attributable to owners of the Company			
Basic	14	**55.3¢**	(91.6)¢
Diluted	14	**54.7¢**	(90.6)¢

The notes to the condensed consolidated financial statements are an integral part of this document.

HISCOX

Condensed consolidated statement of comprehensive income

For the year ended 31 December 2021

	2021 Total $m	2020 Total $m
Profit/(loss) for the year	**189.5**	(293.7)
Other comprehensive income		
Items that will not be reclassified to the income statement:		
Remeasurements of the net defined benefit obligation	**31.6**	(38.0)
Income tax effect	**(3.4)**	8.8
	28.2	(29.2)
Items that may be reclassified subsequently to the income statement:		
Exchange (losses)/gains on translating foreign operations	**(18.5)**	55.5
	(18.5)	55.5
Other comprehensive income net of tax	**9.7**	26.3
Total comprehensive income for the year (all attributable to owners of the Company)	**199.2**	(267.4)

The notes to the condensed consolidated financial statements are an integral part of this document.

Condensed consolidated balance sheet
At 31 December 2021

	Note	2021 $m	2020 $m
Assets			
Goodwill and intangible assets		**313.1**	298.9
Property, plant and equipment		**90.4**	109.4
Investments in associates		**5.7**	4.9
Deferred tax assets		**67.3**	70.7
Deferred acquisition costs		**436.9**	439.2
Financial assets carried at fair value	16	**6,041.3**	6,116.8
Reinsurance assets	13	**3,908.0**	3,644.6
Loans and receivables including insurance receivables		**1,678.2**	1,591.2
Current tax assets		**4.9**	3.3
Cash and cash equivalents		**1,300.7**	1,577.2
Total assets		**13,846.5**	13,856.2
Equity and liabilities			
Shareholders' equity			
Share capital		**38.7**	38.7
Share premium		**516.8**	516.5
Contributed surplus		**184.0**	184.0
Currency translation reserve		**(289.3)**	(270.8)
Retained earnings		**2,088.0**	1,884.4
Equity attributable to owners of the Company		**2,538.2**	2,352.8
Non-controlling interest		**1.1**	1.1
Total equity		**2,539.3**	2,353.9
Employee retirement benefit obligations		**35.1**	73.5
Deferred tax liabilities		**0.1**	2.7
Insurance liabilities	13	**8,868.4**	9,113.4
Financial liabilities	16	**746.7**	946.7
Current tax liabilities		**21.3**	30.4
Trade and other payables		**1,635.6**	1,335.6
Total liabilities		**11,307.2**	11,502.3
Total equity and liabilities		**13,846.5**	13,856.2

The notes to the condensed consolidated financial statements are an integral part of this document.

Condensed consolidated statement of changes in equity

For the year ended 31 December 2021

	Share capital $m	Share premium $m	Contributed surplus $m	Currency translation reserve $m	Retained earnings $m	Equity attributable to owners of the Company $m	Non-controlling interest $m	Total equity $m
Balance at 1 January 2020	**34.1**	**70.5**	**184.0**	**(326.3)**	**2,226.3**	**2,188.6**	**1.1**	**2,189.7**
Loss for the year (all attributable to owners of the Company)	-	-	-	-	(293.7)	**(293.7)**	-	**(293.7)**
Other comprehensive income net of tax (all attributable to owners of the Company)	-	-	-	55.5	(29.2)	**26.3**	-	**26.3**
Employee share options:								
Equity settled share-based payments	-	-	-	-	10.3	**10.3**	-	**10.3**
Deferred and current tax on employee share options	-	-	-	-	(5.4)	**(5.4)**	-	**(5.4)**
Net movements of treasury shares held by Trust	-	-	-	-	(23.9)	**(23.9)**	-	**(23.9)**
Shares issued in the period	4.6	446.0	-	-	-	**450.6**	-	**450.6**
Balance at 31 December 2020	**38.7**	**516.5**	**184.0**	**(270.8)**	**1,884.4**	**2,352.8**	**1.1**	**2,353.9**
Profit for the year (all attributable to owners of the Company)	-	-	-	-	189.5	**189.5**	-	**189.5**
Other comprehensive income net of tax (all attributable to owners of the Company)	-	-	-	(18.5)	28.2	**9.7**	-	**9.7**
Employee share options:								
Equity settled share-based payments	-	-	-	-	24.0	**24.0**	-	**24.0**
Proceeds from shares issued	-	0.1	-	-	-	**0.1**	-	**0.1**
Deferred and current tax on employee share options	-	-	-	-	1.3	**1.3**	-	**1.3**
Shares issued in relation to Scrip Dividend	-	0.2	-	-	-	**0.2**	-	**0.2**
Dividends paid to owners of the Company	-	-	-	-	(39.4)	**(39.4)**	-	**(39.4)**
Balance at 31 December 2021	**38.7**	**516.8**	**184.0**	**(289.3)**	**2,088.0**	**2,538.2**	**1.1**	**2,539.3**

The notes to the condensed consolidated financial statements are an integral part of this document.

Condensed consolidated statement of cash flows

For the year ended 31 December 2021

	Note	2021 $m	2020 $m
Profit/(loss) before tax		**190.8**	(268.5)
Adjustments for:			
Net foreign exchange (gain)/loss		**(0.7)**	14.5
Interest and equity dividend income	9	**(88.1)**	(107.4)
Interest expense	11	**50.8**	44.0
Net fair value losses/(gains) on financial assets	9	**57.9**	(51.2)
Depreciation, amortisation and impairment	10	**58.3**	56.8
Charges in respect of share-based payments	10	**24.0**	10.3
Realised gain on sale of subsidiary undertaking and intangible assets		**(6.5)**	-
Changes in operational assets and liabilities:			
Insurance and reinsurance contracts		**(264.2)**	633.6
Financial assets carried at fair value		**(30.0)**	(475.4)
Financial liabilities carried at fair value		**(0.4)**	(0.1)
Financial liabilities carried at amortised cost		**0.7**	0.8
Other assets and liabilities		**(6.7)**	33.3
Cash paid to the pension fund	19	**-**	(30.4)
Interest received		**90.5**	102.5
Equity dividends received		**1.9**	1.6
Interest paid		**(49.6)**	(42.4)
Current tax paid		**(12.1)**	(39.1)
Net cash flows from/(used in) operating activities		**16.6**	(117.1)
Cash flows from the sale of subsidiaries		**21.4**	-
Purchase of property, plant and equipment		**(5.4)**	(9.0)
Proceeds from the sale of property, plant and equipment		**0.2**	8.6
Purchase of intangible assets		**(53.5)**	(62.5)
Proceeds from the sale of intangible assets		**0.7**	10.2
Net cash used in investing activities		**(36.6)**	(52.7)
Proceeds from the issue of ordinary shares		**0.1**	450.6
Shares repurchased		**-**	(23.9)
Distributions made to owners of the Company	15	**(39.2)**	-
Proceeds from drawdown of short-term borrowings		**-**	470.0
Repayment of short-term borrowings	16	**(195.7)**	(289.4)
Principal elements of lease payments		**(11.4)**	(14.5)
Net cash flows (used in)/from financing activities		**(246.2)**	592.8
Net (decrease)/increase in cash and cash equivalents		**(266.2)**	423.0
Cash and cash equivalents at 1 January		**1,577.2**	1,115.9
Net (decrease)/increase in cash and cash equivalents		**(266.2)**	423.0
Effect of exchange rate fluctuations on cash and cash equivalents		**(10.3)**	38.3
Cash and cash equivalents at 31 December	18	**1,300.7**	1,577.2

The notes to the condensed consolidated financial statements are an integral part of this document.

Notes to the condensed consolidated financial statements

1. General information

The Hiscox Group, which is headquartered in Hamilton, Bermuda, comprises Hiscox Ltd (the parent company, referred to herein as the 'Company') and its subsidiaries (collectively, the 'Hiscox Group' or the 'Group'). For the period under review the Group provided insurance and reinsurance services to its clients worldwide. It has operations in Bermuda, the UK, Europe, Asia and the USA and currently has over 3,000 staff.

The Company is registered and domiciled in Bermuda and its ordinary shares are listed on the London Stock Exchange. The address of its registered office is: Chesney House, 96 Pitts Bay Road, Pembroke HM 08, Bermuda.

2. Basis of preparation

On 31 December 2020, IFRS as adopted by the European Union at that date was brought into UK law and became UK-adopted International Accounting Standards, with future changes being subject to endorsement by the UK Endorsement Board. The Group transitioned to UK-adopted International Accounting Standards in its consolidated financial statements on 1 January 2021. This change constitutes a change in accounting framework. However, there is no impact on recognition, measurement or disclosure in the period reported as a result of the change in framework. The condensed financial statements of the Group have been prepared in accordance with UK-adopted International Accounting Standards and Section 4.1 of the Disclosure and Transparency Rules and the Listing Rules, both issued by the Financial Conduct Authority (FCA).

The basis of preparation and summary of accounting policies applicable to the Group's condensed consolidated financial statements can be found in Note 2 to the 2021 Annual Report and Accounts. The comparative figures are consistent with those presented in the Group's 2020 Annual Report and Accounts, except where noted. The Group has adopted new and amended accounting standards that are effective for annual periods beginning on or after 1 January 2021 and the adoption of these have no material impact on the Group's condensed consolidated financial statements.

The Group's consolidated financial statements from which the condensed financial statements have been extracted have been audited. The auditor's report on the consolidated financial statements is unqualified and does not contain an emphasis-of-matter paragraph.

The condensed consolidated financial statements have been prepared on a going concern basis. In adopting the going concern basis, the Board has reviewed the Group's current and forecast solvency and liquidity positions for the next 12 months and beyond. As part of the consideration of the appropriateness of adopting the going concern basis, the Directors use scenario analysis and stress testing to assess the robustness of the Group's solvency and liquidity positions.

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

After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence over a period of at least 12 months from the date of this report. For this reason, the Group continues to adopt the going concern basis in preparing the condensed consolidated financial statements.

Items included in the financial statements of each of the Group's entities are measured in the currency of the primary economic environment in which that entity operates (the functional currency). The condensed consolidated financial statements are presented in US Dollars millions ($m) and rounded to the nearest hundred thousand Dollars, unless otherwise stated.

These condensed consolidated financial statements were approved on behalf of the Board of Directors by the Chief Executive, Aki Hussain and the Chairman, Robert Childs. Accordingly, the financial statements were approved for issue on 2 March 2022.

Use of estimates and judgements

In preparing these condensed consolidated financial statements, management make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. Estimates and assumptions are continually evaluated and are based on management's knowledge of current facts and circumstances, and their expectations of future events.

2. Basis of preparation (continued)

Significant accounting estimates

The following describes items considered particularly susceptible to changes in estimates and assumptions.

The most critical estimate included within the Group's balance sheet is the measurement of insurance liabilities and reinsurance assets on the balance sheet and in particular the estimate of losses incurred but not reported (IBNR) within these balances. The total gross estimate of IBNR as at 31 December 2021 is $4,539.8 million (2020: $4,571.9 million) and is included within total insurance liabilities on the balance sheet. The total estimate for reinsurers' share of IBNR as at 31 December 2021 is $2,349.5 million (2020: $2,227.7 million). Estimates of IBNR are continually evaluated, based on entity-specific historical experience and contemporaneous developments observed in the wider industry when relevant, and are also updated for expectations of prospective future developments. Between the reporting and final settlement of a claim circumstances may change, which may result in changes to established liability.

The Group tests the adequacy of its unearned premium liability by comparing current estimates of future claims and claims handling expenses attributable to the unexpired periods of policies at the balance sheet date to the unearned premium liability net of acquisition costs. Any deficiency is recognised in the income statement. The related deferred acquisition costs are first written down and any additional liability required is then recognised as an unexpired risk reserve (URR).

Estimated Premium Income

Another key estimate contained within the Group's condensed consolidated financial statements is an estimate of gross premium written during the year.

For certain contracts, premium is initially recognised based on estimates of ultimate premium. This occurs where pricing is based on variables, which are not known with certainty at the point of binding the policy. In determining the estimated premium, the Group uses information provided by brokers and coverholders, past underwriting experience, the contractual terms of the policy and prevailing market conditions. Subsequently, adjustments to those estimates arise as updated information relating to those pricing variables becomes available, for example due to declarations obtained on binding authority contracts, reinstatement premium on reinsurance contracts or other policy amendments. Such adjustments are recorded in the period in which they are determined and impact gross written premiums in the consolidated income statement and premiums receivable from insureds and cedants recorded on the consolidated balance sheet.

Employee Benefits

The employee retirement benefit scheme obligations are calculated and valued with reference to a number of actuarial assumptions including mortality, inflation rates and discount rate, many of which have been subject to specific recent volatility. This complex set of economic variables can have a significant impact on the financial statements.

Deferred Tax Asset

A deferred tax asset can be recognised only to the extent that it is recoverable. The recoverability of deferred tax assets in respect of carry forward losses requires consideration of the future levels of taxable profit in the Group. In preparing the Group's financial statements, management estimates taxation assets and liabilities after taking appropriate professional advice. Significant estimates and assumptions used in the valuation of deferred tax relate to the forecast taxable profits, taking into account the Group's financial and strategic plans.

Significant judgements

The following accounting policies are those considered to have a significant impact on the amounts recognised in the condensed consolidated financial statements:

Consolidation: assessment of whether the Group controls an underlying entity, for example, the treatment of insurance-linked securities funds including consideration of its decision-making authority and its rights to the variable returns from the entity;

Insurance contracts: assessment of the significance of insurance risk transferred to/from the Group in determining whether a contract should be accounted for as an insurance contract or as a financial instrument, this includes assessing the risk transferred on loss portfolio transfers and the appropriate presentation of retroactive reinsurance transactions;

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

3. Financial, insurance and other risk management

The Group's overall appetite for accepting and managing varying classes of risk is defined by the Group's Board of Directors. The 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 Board exercises oversight of the development and operational implementation of its risk management policies and procedures through the Risk Committee and ongoing compliance therewith, through a dedicated internal audit function, which has operational independence, clear terms of reference influenced by the Board's Non Executive Directors and a clear upwards reporting structure back into the Board. The Group, in line with the non-life insurance industry generally, is fundamentally driven by a desire to originate, retain and service insurance contracts to maturity. The Group's cash flows are funded mainly through advance premium collections and the timing of such premium inflows is reasonably predictable. In addition, the majority of material cash outflows are typically triggered by the occurrence of insured events, although the timing, frequency and severity of claims can fluctuate.

The Group continues to monitor and respond to Covid-19 as required, in particular any continued developments and the impacts related to our operations, insurance claims, reinsurance assets and investments on the Group's capital and liquidity positions.

The principal sources of risk relevant to the Group's operations and its financial statements fall into three broad categories: operational risk, insurance risk and financial risk. Please refer to the 2021 consolidated financial statements for more information on risk management.

4. Seasonality and weather

Historically, the Group's most material exposure to catastrophe losses on certain lines of business such as reinsurance inwards and marine and major property risk have been greater during the second half of the calendar year, broadly in line with the most active period of the North Atlantic hurricane season. In contrast, a majority of gross premium income written in these lines of business occurs during the first half of the calendar year. The Group actively participates in many regions and if any catastrophic events do occur, it is likely that the Group will share some of the market's losses. Consequently, the potential for significantly greater volatility in expected returns remains during the second half of the year. Details of the Group's recent exposures to these classes of business are disclosed in the Group's 2021 Report and Accounts.

5. Related-party transactions

Transactions with related parties during the period are disclosed in note 33 of the Group's 2021 Report and Accounts.

6. Operating segments

The Group's operating segment reporting follows the organisational structure and management's internal reporting systems, which form the basis for assessing the financial reporting performance of, and allocation of resources to, each business segment.

In January 2021, we restructured our Special Risks division, integrating its locally written European and US kidnap and ransom activities with Hiscox Europe and Hiscox USA, and including its activities in Guernsey, Miami and London in a newly created Crisis Management division in Hiscox London Market. Comparative figures have been re-presented to reflect this change, along with the previously reported figures where the Special Risk was fully allocated to Hiscox Retail. The legal entity structure is not impacted by this re-presentation.

The Group's four primary business segments are identified as follows:

Hiscox Retail brings together the results of the Group's retail business divisions in the UK, Europe, USA and Asia. Hiscox UK and Hiscox Europe underwrite personal and commercial lines of business through Hiscox Insurance Company Limited and Hiscox Société Anonyme (Hiscox SA), together with the fine art and non-US household insurance business written through Syndicate 33. Hiscox USA comprises commercial, property and specialty business written by Hiscox Insurance Company Inc. and Syndicate 3624.

Hiscox London Market comprises the internationally traded insurance business written by the Group's London-based underwriters via Syndicate 33, including lines in property, marine and energy, casualty and other specialty insurance lines. In addition, the segment includes elements of business written by Syndicate 3624 being auto physical damage and aviation business, however, these are in run-off.

Hiscox Re & ILS is the reinsurance division of the Hiscox Group, combining the underwriting platforms in Bermuda and London. The segment comprises the performance of Hiscox Insurance Company (Bermuda) Limited, excluding the internal quota share arrangements, with the reinsurance contracts written by Syndicate 33. In addition, the healthcare and casualty reinsurance contracts written in the Bermuda hub on Syndicate capacity are also included. The segment also includes the performance and fee income from the ILS funds, along with the gains and losses made as a result of the Group's investment in the funds.

6. Operating segments (continued)

Corporate Centre comprises finance costs and administrative costs associated with Group management activities and intragroup borrowings, as well as all foreign exchange gains and losses. The segment includes results from run-off portfolios where the Group has ceded all insurance risks to a third-party reinsurer.

All amounts reported on the following pages represent transactions with external parties only. In the normal course of trade, the Group's entities enter into various reinsurance arrangements with one another. The related results of these transactions are eliminated on consolidation and are not included within the results of the segments. This is consistent with the information used by the chief operating decision-maker when evaluating the results of the Group. Performance is measured based on each reportable segment's profit or loss before tax.

Year ended 31 December 2021

	Hiscox Retail $m	Hiscox London Market $m	Hiscox Re & ILS $m	Corporate Centre $m	Total $m
Gross premiums written	2,290.0	1,171.4	807.8	-	**4,269.2**
Net premiums written	1,969.3	711.5	274.2	-	**2,955.0**
Net premiums earned	1,958.6	690.3	271.0	-	**2,919.9**
Investment result	26.9	15.8	8.8	(0.3)	**51.2**
Other income	22.8	19.1	11.3	3.6	**56.8**
Total income	2,008.3	725.2	291.1	3.3	**3,027.9**
Claims and claim adjustment expenses, net of reinsurance	(985.9)	(333.9)	(110.6)	-	**(1,430.4)**
Expenses for the acquisition of insurance contracts	(524.9)	(193.9)	(15.9)	-	**(734.7)**
Operational expenses	(435.7)	(92.0)	(64.7)	(30.3)	**(622.7)**
Net foreign exchange gains	-	-	-	0.7	**0.7**
Total expenses	(1,946.5)	(619.8)	(191.2)	(29.6)	**(2,787.1)**
Results of operating activities	61.8	105.4	99.9	(26.3)	**240.8**
Finance costs	(6.9)	(0.6)	(1.4)	(41.9)	**(50.8)**
Share of profit of associates after tax	-	-	-	0.8	**0.8**
Profit/(loss) before tax	54.9	104.8	98.5	(67.4)	**190.8**
100% ratio analysis*					
Claims ratio (%)	50.0%	49.5%	40.0%	-	**48.9%**
Expense ratio (%)	48.9%	39.6%	28.0%	-	**44.3%**
Combined ratio (%)**	98.9%	89.1%	68.0%	**-**	**93.2%**

6. Operating segments (continued)

Year ended 31 December 2020 (re-presented)

	Hiscox Retail $m	Hiscox London Market $m	Hiscox Re & ILS $m	Corporate Centre $m	Total $m
Gross premiums written	2,180.0	1,109.7	743.4	-	**4,033.1**
Net premiums written	1,907.8	649.9	192.7	-	**2,750.4**
Net premiums earned	1,886.5	637.6	228.1	-	**2,752.2**
Investment result	103.4	60.5	33.6	-	**197.5**
Other income	20.3	14.9	12.5	2.5	**50.2**
Total income	2,010.2	713.0	274.2	2.5	**2,999.9**
Claims and claim adjustment expenses, net of reinsurance	(1,409.2)	(280.8)	(232.7)	-	**(1,922.7)**
Expenses for the acquisition of insurance contracts	(503.1)	(184.3)	(26.5)	-	**(713.9)**
Operational expenses	(392.2)	(92.6)	(49.1)	(39.1)	**(573.0)**
Net foreign exchange losses	-	-	-	(14.5)	**(14.5)**
Total expenses	(2,304.5)	(557.7)	(308.3)	(53.6)	**(3,224.1)**
Results of operating activities	(294.3)	155.3	(34.1)	(51.1)	**(224.2)**
Finance costs	(1.3)	(0.1)	(1.0)	(41.6)	**(44.0)**
Share of loss of associates after tax	-	-	-	(0.3)	**(0.3)**
(Loss)/profit before tax	(295.6)	155.2	(35.1)	(93.0)	**(268.5)**
100% ratio analysis*					
Claims ratio (%)	75.9	47.8	99.0	-	**70.0**
Expense ratio (%)	47.5	41.4	32.8	-	**44.5**
Combined ratio (%)**	123.4	89.2	131.8	-	**114.5**

6. Operating segments (continued)

Year ended 31 December 2020 (as previously reported)

	Hiscox Retail $m	Hiscox London Market $m	Hiscox Re & ILS $m	Corporate Centre $m	Total $m
Gross premiums written	2,266.3	1,023.4	743.4	-	**4,033.1**
Net premiums written	1,986.8	570.9	192.7	-	**2,750.4**
Net premiums earned	1,975.5	548.6	228.1	-	**2,752.2**
Investment result	107.3	56.6	33.6	-	**197.5**
Other income	21.4	13.8	12.5	2.5	**50.2**
Total income	2,104.2	619.0	274.2	2.5	**2,999.9**
Claims and claim adjustment expenses, net of reinsurance	(1,395.6)	(294.4)	(232.7)	-	**(1,922.7)**
Expenses for the acquisition of insurance contracts	(539.0)	(148.4)	(26.5)	-	**(713.9)**
Operational expenses	(405.9)	(78.9)	(49.1)	(39.1)	**(573.0)**
Net foreign exchange losses	-	-	-	(14.5)	**(14.5)**
Total expenses	(2,340.5)	(521.7)	(308.3)	(53.6)	**(3,224.1)**
Results of operating activities	(236.3)	97.3	(34.1)	(51.1)	**(224.2)**
Finance costs	(1.3)	(0.1)	(1.0)	(41.6)	**(44.0)**
Share of loss of associates after tax	-	-	-	(0.3)	**(0.3)**
(Loss)/profit before tax	(237.6)	97.2	(35.1)	(93.0)	**(268.5)**
100% ratio analysis*					
Claims ratio (%)	72.2	54.1	99.0	-	**70.0**
Expense ratio (%)	47.8	39.6	32.8	-	**44.5**
Combined ratio (%)**	120.0	93.7	131.8	**-**	**114.5**

* The Group’s percentage participation in Syndicate 33 can fluctuate from year-to-year and consequently, presentation of the results at the 100% level removes any distortions arising therefrom.

** The claims ratio is calculated as claims and claim adjustment expenses, net of reinsurance, as a proportion of net premiums earned. The expense ratio is calculated as the total of expenses for the acquisition of insurance contracts and operational expenses, including profit-related pay, as a proportion of net premiums earned. The combined ratio is the total of the claims and expenses ratios. All ratios are calculated using the 100% results and exclude a run-off portfolio, where the Group has ceded all insurance risks to a third-party reinsurer, included within Corporate Centre. Costs allocated to Corporate Centre are non-underwriting related costs and are not included within the combined ratio.

6. Operating segments (continued)

The tables presented below contain the net earned premium, claims, acquisition expenses and operational expenses (excluding corporate centre expenses) at 100% ownership, to enable calculation of the ratios included in the operating segments.

Year ended 31 December 2021

	Hiscox Retail $m	Hiscox London Market $m	Hiscox Re & ILS $m	Total $m
Net premiums earned	1,985.0	924.1	313.3	3,222.4
Claims and claim adjustment expenses, net of reinsurance	(991.7)	(457.8)	(125.2)	(1,574.7)
Expenses for the acquisition of insurance contracts	(531.8)	(252.5)	(16.6)	(800.9)
Operational expenses	(439.1)	(114.0)	(71.1)	(624.2)

Year ended 31 December 2020 (re-presented)

	Hiscox Retail $m	Hiscox London Market $m	Hiscox Re & ILS $m	Total $m
Net premium earned	1,910.7	850.0	269.4	3,030.1
Claims and claim adjustment expenses, net of reinsurance	(1,449.8)	(406.6)	(266.7)	(2,123.1)
Expenses for the acquisition of insurance contracts	(511.8)	(238.8)	(32.9)	(783.5)
Operational expenses	(395.3)	(113.0)	(55.6)	(563.9)

Year ended 31 December 2020 (as previously reported)

	Hiscox Retail $m	Hiscox London Market $m	Hiscox Re & ILS $m	Total $m
Net premiums earned	2,007.6	753.1	269.4	3,030.1
Claims and claim adjustment expenses, net of reinsurance	(1,449.1)	(407.3)	(266.7)	(2,123.1)
Expenses for the acquisition of insurance contracts	(550.6)	(200.0)	(32.9)	(783.5)
Operational expenses	(409.8)	(98.5)	(55.6)	(563.9)

7. Net asset value per share and net tangible asset value per share

	2021		2020	
	Net asset value (total equity)	**Net asset value per share**	Net asset value (total equity)	Net asset value per share
	$m	**cents**	$m	cents
Net asset value	**2,539.3**	**739.8**	2,353.9	689.0
Net tangible asset value	**2,226.2**	**648.6**	2,055.0	601.5

The net asset value per share is based on 343,232,855 shares (2020: 341,647,634 shares), being the shares in issue at 31 December 2021, less those held in treasury and those held by the Group Employee Benefit Trust.

Net tangible assets comprise total equity excluding intangible assets. The net asset value per share expressed in pence is 546.2p (2020: 503.9p).

8. Return on equity

	2021 **$m**	2020 $m
Profit/(loss) for the year (all attributable to owners of the Company)	**189.5**	(293.7)
Opening total equity	**2,353.9**	2,189.7
Adjusted for the time-weighted impact of capital distributions and issuance of shares	**(11.3)**	307.8
Adjusted opening total equity	**2,342.6**	2,497.5
Return on equity (%)	**8.1**	(11.8)

The return on equity is calculated by using profit for the period divided by the adjusted opening total equity. The adjusted opening total equity represents the equity on 1 January of the relevant year as adjusted for time-weighted aspects of capital distributions and issuing of shares or treasury share purchases during the period. The time weighted positions are calculated on a daily basis with reference to the proportion of time from the transaction to th e end of the period.

9. Investment result

i. Analysis of investment result

The total investment result for the Group before taxation comprises:

	2021 **$m**	2020 $m
Investment income including interest receivable	**88.1**	107.4
Net realised gains on financial investments at fair value through profit or loss	**25.2**	45.5
Net fair value (losses)/gains on financial investments at fair value through profit or loss	**(57.9)**	51.2
Investment result – financial assets	**55.4**	204.1
Net fair value gains/(losses) on derivative financial instruments	**1.7**	(2.1)
Investment expenses	**(5.9)**	(4.5)
Total result	**51.2**	197.5

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9. Investment result (continued)

ii. Investment return

	2021		2020*	
	Return $m	**Yield %**	Return $m	Yield %
Debt and fixed income holdings	**(11.4)**	**(0.2)**	154.6	3.0
Equities and investment funds	**66.2**	**11.6**	45.1	10.5
Deposits with credit institutions/cash and cash equivalents	**0.6**	**0.0**	4.4	0.3
Investment return – financial assets	**55.4**	**0.7**	204.1	2.8

* Returns from certain debt and bond funds have been reallocated from investment funds to debt and fixed income to better reflect the nature of the investments. There is no impact on the total investment result.

10. Other income and operational expenses

	2021 $m	2020 $m
Agency-related income	**27.7**	22.1
Profit commission	**4.8**	1.5
Other underwriting income	**0.2**	2.5
Other income	**24.1**	24.1
Other income	**56.8**	50.2
Wages and salaries	**228.9**	188.7
Social security costs	**30.8**	33.1
Pension cost – defined contribution	**17.3**	13.1
Pension cost – defined benefit	**1.0**	1.1
Share-based payments	**24.0**	10.3
Temporary staff costs	**39.6**	40.2
Travel and entertainment	**5.6**	6.2
Legal and professional	**71.6**	63.0
Office costs	**13.6**	15.7
Computer costs	**53.8**	58.6
Depreciation, amortisation and impairment	**58.3**	56.8
Other expenses	**78.2**	86.2
Operational expenses	**622.7**	573.0

Other expenses include marketing, VAT expense, other staff costs, Lloyd's costs and subscriptions. Total marketing expenditure (included in operational expenses and expenses for the acquisition of insurance contracts) for the year was $56.6 million (2020: $59.4 million).

As a result of the disposal of Crystal Ridge subsidiary for $21.4m on 1 June 2021, the Group has de-recognised the relevant assets and liabilities and made a gain on disposal of $5.2 million reported in other income.

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11. Finance costs

	2021 $m	2020 $m
Interest charge associated with borrowings	**30.7**	28.6
Interest and expenses associated with bank borrowing facilities	**7.5**	10.7
Interest and charges associated with Letters of Credit	**5.0**	2.4
Other interest expenses*	**7.6**	2.3
Finance costs	**50.8**	44.0

*Including interest expenses on lease liabilities of $1.2 million (2020: $1.4 million) and interest and charges associated with funds withheld balances.

As at 31 December 2021, the total amount utilised by way of Letter of Credit to support the Funds at Lloyd's requirement was $266.0 million (2020: $266.0 million).

12. Tax expense

The Company and its subsidiaries are subject to enacted tax laws in the jurisdictions in which they are incorporated and domiciled.

The amounts charged in the condensed consolidated income statement comprise the following:

	2021 $m	2020 $m
Current tax expense	**4.4**	13.2
Deferred tax (credit)/expense	**(3.1)**	12.0
Total tax charged to the income statement	**1.3**	25.2

An increase to the UK corporate tax rate to 25% from 1 April 2023 was substantively enacted on 24 May 2021. This will have a consequential effect on the company's future tax charge and deferred tax assets in relation to the UK have increased by $8.2 million. The impact of these changes in future periods will be dependent on the level of taxable profits in those periods.

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13. Insurance liabilities and reinsurance assets

	2021 $m	2020 $m
Gross		
Claims and claim adjustment expenses outstanding including IBNR	**7,045.9**	7,259.9
Unexpired risk reserve	**-**	31.5
Unearned premiums	**1,822.5**	1,822.0
Total insurance liabilities, gross	**8,868.4**	9,113.4
Recoverable from reinsurers		
Claims and claim adjustment expenses outstanding including IBNR	**3,492.8**	3,204.4
Unexpired risk reserve	**-**	8.6
Unearned premiums	**415.2**	431.6
Total reinsurers' share of insurance liabilities	**3,908.0**	3,644.6
Net		
Claims and claim adjustment expenses outstanding including IBNR	**3,553.1**	4,055.5
Unexpired risk reserve	**-**	22.9
Unearned premiums	**1,407.3**	1,390.4
Total insurance liabilities, net	**4,960.4**	5,468.8

Net claims and claim adjustment expenses include releases of $148.9 million (2020: $32.0 million) related to reserves established in prior reporting periods.

During the year, the Group completed loss portfolio transfers (LPT) securing coverage for potential adverse development on historical liabilities for selected lines of business, including the majority of Hiscox USA's surplus lines broker business. The Group concluded that the LPTs transfer significant risks and accounts for the arrangements by recognising a reinsurance asset, a funds-withheld balance in trade and other payables, and a net loss at inception in reinsurance premium ceded.

Lloyd's Part VII transfer

On 30 December 2020, the members and former members of the Syndicate, as comprised for each of the relevant years of account between 1993 and April 2019, transferred all relevant policies (and related liabilities) underwritten by them for tho se years of account to Lloyd's Insurance Company S.A. ('Lloyd's Brussels'), in accordance with Part VII of the Financial Services and Markets Act 2000. On the same date, the members of the Syndicate entered into a 100% quota share reinsurance agreement whereby Lloyd's Brussels reinsured all risks on the same policies back to the relevant open years of account of the Syndicate, which wrote the transferring policies and/or inherited liabilities on transferring policies through reinsurance to close of earlier years of account.

Following the sanction of the scheme by the High Court on 25 November 2020, the scheme took effect on 30 December 2020 and the members and former members of the Syndicate transferred the impacted EEA policies and related liabilities to Lloyd's Brussels, together with cash of $154.8 million. On the same date, under the reinsurance agreement, Lloyd's Brussels reinsured the same risks back, together with an equal amount of cash of $154.8 million and non-cash assets relating to the transferred liabilities. The combined effect of the two transactions had no economic impact for the Syndicate, and accordingly there is no impact on the Syndicate's income statement and no net impact on the balance sheet.

No adjustment has been made in the segmental note for transactio ns that occurred in respect of the transferred business up to the date of the transfer, which is consistent with the income statement presentation. Outstanding debtor and creditor balances in respect of the transferred business that were previously classified as arising out of direct reinsurance operations have been reclassified as arising out of reinsurance operations.

Current year underwriting results are reported under the inwards reinsurance class of business, reflecting the new contractua l arrangement with Lloyd's Brussels.

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13. Insurance liabilities and reinsurance assets (continued)

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

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

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

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

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

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

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

Booked reserves are held above the best estimate to help mitigate the uncertainty within the reserve estimates. As the best estimate matures and becomes more certain, the management margin is gradually released in line with the reserving policy. This approach is consistent with last year. The margin included in the insurance liabilities at 31 December 2021 was 11.7% above the best estimate (2020: 9.8%). This includes margin for the uncertainty in Covid-19 claims estimates.

While the Group incurred additional losses early in 2021, due to additional UK lockdown measures in January, we have also benefitted from positive prior year development on first order Covid-19-related losses in our events and contingency book. Consequently there has been no material movement in Covid-19 losses for the year.

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13. Insurance liabilities and reinsurance assets (continued)

The development of net claims reserves by accident years are detailed below.

Insurance claims and claim adjustment expenses reserves – net of reinsurance at 100%

Accident year	2012 $m	2013 $m	2014 $m	2015 $m	2016 $m	2017 $m	2018 $m	2019 $m	2020 $m	**2021 $m**	**Total $m**
Estimate of ultimate claims costs as adjusted for foreign exchange* at end of accident year:	1,198.2	1,133.3	1,176.8	1,255.2	1,471.6	1,852.2	1,799.4	1,786.1	2,204.2	1,754.6	15,631.6
one year later	1,058.3	1,006.3	1,034.8	1,160.0	1,334.0	1,654.1	1,814.0	1,725.3	2,058.9	-	12,845.7
two years later	982.3	904.7	939.7	1,064.0	1,262.4	1,633.8	1,777.8	1,518.8	-	-	10,083.5
three years later	947.0	838.3	884.1	1,056.9	1,285.1	1,621.5	1,593.5	-	-	-	8,226.4
four years later	937.3	834.4	857.0	1,056.0	1,324.8	1,497.5	-	-	-	-	6,507.0
five years later	957.6	807.4	834.3	1,084.4	1,258.0	-	-	-	-	-	4,941.7
six years later	946.9	804.7	828.8	1,043.1	-	-	-	-	-	-	3,623.5
seven years later	927.0	805.0	816.0	-	-	-	-	-	-	-	2,548.0
eight years later	917.5	789.3	-	-	-	-	-	-	-	-	1,706.8
nine years later	910.1	-	-	-	-	-	-	-	-	-	910.1
Current estimate of cumulative claims	910.1	789.3	816.0	1,043.1	1,258.0	1,497.5	1,593.5	1,518,8	2,058.9	1,754.6	13,239.8
Cumulative payments to date	(861.2)	(767.8)	(730.0)	(889.3)	(1,070.7)	(1,317.6)	(1,256.8)	(1,078.7)	(975.2)	(373.3)	(9,320.6)
Liability recognised at 100% level	48.9	21.5	86.0	153.8	187.3	179.9	336.7	440.1	1,083.7	1,381.3	3,919.2
Liability recognised in respect of accident years before 2012 at 100% level											**103.9**
Total net liability to external parties at 100% level											**4,023.1**

* The foreign exchange adjustment arises from the retranslation of the estimates at each date using the exchange rate ruling at 31 December 2021.

Current estimate of cumulative claims in the table above has been impacted by the loss portfolio transfer arrangements taken out in 2021.

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13. Insurance liabilities and reinsurance assets (continued)

Reconciliation of 100% disclosures above to Group's share – net of reinsurance

Accident year	2012 $m	2013 $m	2014 $m	2015 $m	2016 $m	2017 $m	2018 $m	2019 $m	2020 $m	**2021 $m**	**Total $m**
Current estimate of cumulative claims	910.1	789.3	816.0	1,043.1	1,258.0	1,497.5	1,593.5	1,518.8	2,058.9	1,754.6	13,239.8
Less: attributable to external Names	(93.7)	(79.5)	(81.3)	(112.3)	(133.0)	(154.1)	(157.0)	(188.3)	(208.9)	(183.9)	(1,392.0)
Group's share of current ultimate claims estimate	816.4	709.8	734.7	930.8	1,125.0	1,343.4	1,436.5	1,330.5	1,850.0	1,570.7	11,847.8
Cumulative payments to date	(861.2)	(767.8)	(730.0)	(889.3)	(1,070.7)	(1,317.6)	(1,256.8)	(1,078.7)	(975.2)	(373.3)	(9,320.6)
Less: attributable to external Names	87.3	75.6	74.8	93.3	105.0	131.2	116.9	128.4	95.9	39.2	947.6
Group's share of cumulative payments	(773.9)	(692.2)	(655.2)	(796.0)	(965.7)	(1,186.4)	(1,139.9)	(950.3)	(879.3)	(334.1)	(8,373.0)
Liability recognised on Group's balance sheet	42.5	17.6	79.5	134.8	159.3	157.0	296.6	380.2	970.7	1,236.6	3,474.8
Liability for accident years before 2012 recognised on Group's balance sheet											**78.3**
Total Group liability to external parties included in balance sheet – net*											**3,553.1**

* This represents the claims element of the Group's insurance liabilities and reinsurance assets.

A reconciliation of the gross premiums written to net premiums earned is as follows:

	2021 $m	2020 $m
Gross premiums written	**4,269.2**	4,033.1
Outward reinsurance premiums	**(1,314.2)**	(1,282.7)
Net premiums written	**2,955.0**	2,750.4
Change in gross unearned premium reserves	**(22.3)**	38.1
Change in reinsurers' share of unearned premium reserves	**(12.8)**	(36.3)
Change in net unearned premium reserves	**(35.1)**	1.8
Net premiums earned	**2,919.9**	2,752.2

14. Earnings per share

Basic

Basic earnings per share is calculated by dividing the profit or loss attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares purchased by the Group and held in treasury as own shares.

	2021	2020
Profit/(loss) for the year attributable to owners of the Company ($m)	**189.5**	(293.7)
Weighted average number of ordinary shares in issue (thousands)	**342,551**	320,562
Basic earnings per share (cents per share)	**55.3¢**	(91.6)¢
Basic earnings per share (pence per share)	**40.2p**	(71.5)p

Diluted

Diluted earnings per share is calculated by adjusting for the assumed conversion of all dilutive potential ordinary shares. The Company has one category of dilutive potential ordinary shares: share options and awards. For the share options, a calculation is made to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	2021	2020
Profit/(loss) for the year attributable to owners of the Company ($m)	**189.5**	(293.7)
Weighted average number of ordinary shares in issue (thousands)	**342,551**	320,562
Adjustment for share options (thousands)	**3,740**	3,498
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**346,291**	324,060
Diluted earnings per share (cents per share)	**54.7¢**	(90.6)¢
Diluted earnings per share (pence per share)	**39.8p**	(70.7)p

Diluted earnings per share has been calculated after taking account of 3,611,707 (2020: 3,431,623) Performance Share Plan awards and 128,080 (2020: 66,010) options under Save As You Earn schemes.

15. Dividends paid to owners of the Company

	2021	2020
	$m	$m
Interim dividend for the year ended:		
31 December 2021 of 11.5¢ (net) per share	**39.4**	-
	39.4	-

The interim dividend for 2021 was paid either in cash or issued as a Scrip Dividend at the option of the shareholder. The interim dividend for the year ended 31 December 2021 was paid in cash of $39.2 million and 20,231 shares for a Scrip Dividend.There was no interim or final dividend declared for the year ended 31 December 2020.

The Board has recommended a final dividend of 23.0¢ per share to be paid, subject to shareholder approval, on 13 June 2022 to shareholders registered on 6 May 2022, taking the ordinary dividend per share for the year to 34.5¢ (2020: nil). The dividends will be paid in Sterling unless shareholders elect to be paid in US Dollars. The foreign exchange rates at which future divid ends declared in US Dollars will be calculated is based on the average exchange rate in the five business days prior to the Scrip Dividend price being determined. On this occasion, the period will be between 23 May 2022 and 27 May 2022 inclusive.
A Scrip Dividend alternative will be offered to the owners of the Company.

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15. Dividends paid to owners of the Company (continued)

When determining the level of dividend each year, the Board considers the ability of the Group to generate cash; the availability of that cash in the Group, while considering constraints such as regulatory capital requirements and the level required to invest in the business. This is a progressive policy and is expected to be maintained for the foreseeable future.

16. Financial assets and liabilities

i. Analysis of financial assets carried at fair value

	2021 $m	2020* $m
Debt and fixed income holdings	**5,528.1**	5,588.3
Equities and investment funds	**461.2**	464.5
Total investments	**5,989.3**	6,052.8
Insurance-linked funds	**50.9**	63.2
Derivative financial instruments	**1.1**	0.8
Total financial assets carried at fair value	**6,041.3**	6,116.8

*The 2020 figures have been re-presented for the re-allocation of certain debt and bond funds to debt and fixed income holdings

ii. Analysis of financial liabilities carried at fair value

	2021 $m	2020 $m
Derivative financial instruments	**0.2**	0.6
Total financial liabilities carried at fair value	**0.2**	0.6

iii. Analysis of financial liabilities carried at amortised cost

	2021 $m	2020 $m
Borrowings	**743.7**	943.3
Accrued interest on borrowings	**2.8**	2.8
Total financial liabilities carried at amortised cost	**746.5**	946.1

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16. Financial assets and liabilities (continued)

On 24 November 2015, the Group issued £275.0 million 6.125% fixed-to-floating rate callable subordinated notes due 2045, with a first call date of 2025.

The notes bear interest from, and including, 24 November 2015 at a fixed rate of 6.125% per annum annually in arrears starting 24 November 2016 up until the first call date in November 2025 and thereafter at a floating rate of interest equal to the sum of compounded daily Sterling Overnight Index Average (SONIA), the reference rate adjustment of 0.1193% and a margin of 5.076% payable quarterly in arrears on each floating interest payment date.

On 25 November 2015, the notes were admitted for trading on the London Stock Exchange's regulated market. The notes were rated BBB- by S&P as well as by Fitch.

On 14 March 2018, the Group issued £275.0 million 2% notes due December 2022. The notes will be redeemed on the maturity date at their principal amount together with accrued interest.

The notes bear interest from, and including, 14 March 2018 at a fixed rate of 2% per annum annually in arrears starting 14 December 2018 until maturity on 14 December 2022.

On 14 March 2018, the notes were admitted for trading on the Luxembourg Stock Exchange's Euro MTF. The notes were rated BBB+ by S&P as well as by Fitch.

The fair value of the borrowings is estimated at $797.3 million (2020: $822.6 million). The fair value measurement is classified within Level 1 of the fair value hierarchy. The fair value is estimated by reference to the actively traded value on the stock exchanges.

The decrease in the carrying value of the borrowings and accrued interest during the year comprises repayment of short-term borrowings of $195.7 million (2020: addition of $180.6 million), the amortisation of the difference between the net proceeds received and the redemption amounts of $0.8 million (2020: $0.8 million), the reduction in accrued interest of $0.1 million (2020: increase of $0.1 million) less exchange movements of $4.6 million (2020: plus exchange movements of $36.4 million).

iv. Investment and cash allocation

	2021		2020*	
	$m	**%**	$m	%
Debt and fixed income holdings	**5,528.1**	**75.8**	5,588.3	73.2
Equities and investment funds	**461.2**	**6.3**	464.5	6.1
Cash and cash equivalents	**1,300.7**	**17.9**	1,577.2	20.7
Total	**7,290.0**	**100.0**	7,630.0	100.0

*The 2020 figures have been re-presented for the re-allocation of certain debt and bond funds to debt and fixed income holdings

v. Total investments and cash allocation by currency

	2021 %	2020 %
US Dollars	**64.8**	63.9
Sterling	**21.9**	22.3
Euro	**8.9**	10.4
Other currencies	**4.4**	3.4

17. Fair value measurements

An analysis of assets and liabilities carried at fair value categorised by fair value hierarchy that reflects the significance of the inputs used in measuring the fair value, is set out below.

As at 31 December 2021	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial Assets				
Debt and fixed income holdings	858.5	4,639.5	30.1	5,528.1
Equities and investment funds	-	416.5	44.7	461.2
Insurance-linked funds	-	-	50.9	50.9
Derivative financial instruments	-	1.1	-	1.1
Total	858.5	5,057.1	125.7	6,041.3
Financial Liabilities				
Derivative financial instruments	-	0.2	-	0.2
Total	-	0.2	-	0.2

As at 31 December 2020*	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial Assets				
Debt and fixed income holdings	1,191.4	4,396.9	-	5,588.3
Equities and investment funds	-	419.0	45.5	464.5
Insurance-linked funds	-	-	63.2	63.2
Derivative financial instruments	-	0.8	-	0.8
Total	1,191.4	4,816.7	108.7	6,116.8
Financial Liabilities				
Derivative financial instruments	-	0.6	-	0.6
Total	-	0.6	-	0.6

*The 2020 figures have been re-presented for the re-allocation of certain debt and bond funds to debt and fixed income holdings and corporate bond levels, see detail below

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17. Fair value measurements (continued)

The levels of the fair value hierarchy are defined as follows:

- Level 1 – fair values measured using quoted prices (unadjusted) in active markets for identical instruments;
- Level 2 – fair values measured using directly or indirectly observable inputs or other similar valuation techniques for which all significant inputs are based on market observable data;
- Level 3 – fair values measured using valuation techniques for which significant inputs are not based on market observable data.

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

Investments in mutual funds comprise a portfolio of stock investments in trading entities which are invested in various quoted and unquoted investments. The fair value of these investment funds is based on the net asset value of the fund as reported by independent pricing sources or the fund manager.

Management has refined the criteria for financial assets being allocated to Level 1, and certain corporate bonds considered to have quoted prices in active markets are now included in Level 1. Previously no corporate bonds were included in Level 1. In 2021, $32.6 million of corporate bonds have been recognised in Level 1 and $72.6 million have been re-presented from Level 2 to Level 1 for 2020. There is no impact on profit in current or future periods. There were no transfers in or out of Level 3 of the fair value hierarchy.

Included within Level 1 of the fair value hierarchy are certain government bonds, treasury bills, corporate bonds and exchange-traded equities which are measured based on quoted prices in active markets.

The fair value of the borrowings carried at amortised cost is estimated at $797.3 million (2020: $822.6 million) and is considered as Level 1 in the fair value hierarchy.

Level 2 of the hierarchy contains certain government bonds, US government agencies, corporate securities, asset-backed securities and mortgage-backed securities. The fair value of these assets is based on the prices obtained from independent pricing sources, investment managers and investment custodians as discussed above. The Group records the unadjusted price provided and validates the price through a number of methods including a comparison of the prices provided by the investment managers with the investment custodians and the valuation used by external parties to derive fair value. Quoted prices for US government agencies and corporate securities are based on a limited number of transactions for those securities and as such the Group considers these instruments to have similar characteristics to those instruments classified as Level 2. Also included within Level 2 are units held in collective investment vehicles investing in traditional and alternative investment strategies and over-the-counter derivatives.

Level 3 contains investments in a limited partnership, unquoted equity securities and the insurance-linked funds which have limited observable inputs on which to measure fair value. Unquoted equities, including equity instruments in limited partnerships, are carried at fair value. Fair value is determined to be net asset value for the limited partnerships, and for the equity holdings it is determined to be the latest available traded price. The effect of changing one or more inputs used in the measurement of fair value of these instruments to another reasonably possible assumption would not be significant. At 31 December 2021, the insurance-linked funds of $50.9 million represent the Group's investment in the unconsolidated Kiskadee Funds (2020: $63.2 million).

The fair value of the Kiskadee Funds is estimated to be the net asset value as at the balance sheet date. The net asset value is based on the fair value of the assets and liabilities in the fund. The majority of the assets of the funds are cash and cash equivalents. Significant inputs and assumptions in calculating the fair value of the assets and liabilities associated with reinsurance contracts written by the Kiskadee Funds include the amount and timing of claims payable in respect of claims incurred and periods of unexpired risk. The Group has considered changes in the net asset valuation of the Kiskadee Funds if reasonably different inputs and assumptions were used and has found that a 12% change to the fair value of the liabilities would increase or decrease the fair value of funds by $2.9 million.

In certain cases, the inputs used to measure the fair value of a financial instrument may fall into more than one level within the fair value hierarchy. In this instance, the fair value of the instrument in its entirety is classified based on the lowest level of input that is significant to the fair value measurement.

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels at the end of the relevant reporting period during which the transfers are deemed to have occurred.

17. Fair value measurements (continued)

The following table sets forth a reconciliation of opening and closing balances for financial instruments classified under Level 3 of the fair value hierarchy:

	31 December 2021 Financial assets			
	Debt and fixed income holdings	**Equities and investment funds**	**Insurance-linked funds**	**Total**
	$m	**$m**	**$m**	**$m**
Balance at 1 January	**-**	**45.5**	**63.2**	**108.7**
Fair value gains or losses through profit or loss*	**0.1**	**(0.3)**	**-**	**(0.2)**
Foreign exchange gains/(losses)	**-**	**(0.4)**	**0.1**	**(0.3)**
Purchases	**30.0**	**0.2**	**-**	**30.2**
Settlements	**-**	**(0.3)**	**(12.4)**	**(12.7)**
Closing balance	**30.1**	**44.7**	**50.9**	**125.7**
Unrealised gains and (losses) in the year on securities held at the end of the year	**0.1**	**-**	**(0.4)**	**(0.3)**

*Fair value gains/(losses) are included within the investment result in the income statement for debt and fixed income holdings and for equities and investment funds and through other income for the insurance-linked funds.

	31 December 2020 Financial assets		
	Equities and investment funds	Insurance-linked funds	Total
	$m	$m	$m
Balance at 1 January	18.5	61.2	79.7
Fair value gains or losses through profit or loss*	(5.4)	2.7	(2.7)
Foreign exchange gains	1.9	-	1.9
Purchases	30.8	2.6	33.4
Settlements	(0.3)	(3.3)	(3.6)
Closing balance	45.5	63.2	108.7
Unrealised (losses) and gains in the year on securities held at the end of the year	(0.4)	2.7	2.3

*Fair value gains/(losses) are included within the investment result in the income statement for equities and investment funds and through other income for the insurance-linked funds.

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18. Condensed consolidated cash flow statement

The purchase, maturity and disposal of financial assets is part of the Group's insurance activities and is therefore classified as an operating cash flow.

Included within cash and cash equivalents held by the Group are balances totalling $215 million (2020: $172 million) not available for immediate use by the Group outside of the Lloyd's syndicate within which they are held. Additionally, $7 million (2020: $9 million) is pledged cash against Funds at Lloyd's, and $0.4 million (2020: $0.5 million) is held within trust funds against reinsurance arrangements.

19. Employee retirement benefit obligations

The table below provides a reconciliation of the movement in the Group's net defined benefit liabilities position under IAS 19 from 1 January 2020 to 31 December 2020 and 1 January 2021 to 31 December 2021.

	2021	2020
	$m	$m
Group defined benefit liability at beginning of year	**73.5**	55.1
Third-party Names' share of liability	**(18.8)**	(10.5)
Net defined benefit liabilitiy at beginning of year	**54.7**	44.6
Total remeasurements included in other comprehensive income	**(31.6)**	38.0
Contribution by employer	**-**	(30.4)
Other movements	**(0.3)**	2.5
Net defined benefit liabilitiy at end of year	**22.8**	54.7
Third-party Names' share of liability	**12.3**	18.8
Group defined benefit liability at end of year	**35.1**	73.5

Remeasurements include changes in actuarial assumptions, predominantly the application of a higher discount rate (2020: lower discount rate) being applied to the scheme liabilities and the increase (2020: decrease) in the fair value of the scheme assets. There have been no contributions from the company in 2021. The contribution of $30.4 million paid in 2020 consisted of two amounts: a contribution in January 2020 of $3.7 million and the advance payment made in December 2020 of $26.7 million in respect of contributions due in 2021.

Other movements include the defined benefit cost recognised in operating expenses and exchange gains/losses.

20. Post-balance sheet events

In February 2022, a military conflict arose in Ukraine. The Group has some limited direct insurance exposure through certain lines including terrorism, political violence, war and marine. Management are actively monitoring the situation and assisting Hiscox policyholders. The Group has negligible exposure to investments in Ukrainian and Russian assets.