



Independent auditor's report

To the Board of Directors and Shareholder of Hiscox Insurance Company (Bermuda) Limited

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Hiscox Insurance Company (Bermuda) Limited (the Company) as at 31 December 2023, and its financial performance and its cash flows for the year then ended in accordance with IFRS Accounting Standards.

What we have audited

The Company's financial statements comprise:

- the statement of financial position as at 31 December 2023;
- the statement of income and comprehensive income for the year then ended;
- the statement of changes in shareholder's equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, comprising material accounting policy information and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) and the ethical requirements of the Chartered Professional Accountants of Bermuda Rules of Professional Conduct (CPA Bermuda Rules) that are relevant to our audit of the financial statements in Bermuda. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the ethical requirements of the CPA Bermuda Rules.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.



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

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



Auditor's responsibilities for the audit of the financial statements (continued)

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

PricewaterhouseCoopers Ltd.

Chartered Professional Accountants
Hamilton, Bermuda
30 April 2024

FINANCIAL STATEMENTS

Hiscox Insurance Company (Bermuda) Limited
Year Ended 31 December 2023
With Independent Auditor's Report

Hiscox Insurance Company (Bermuda) Limited

Financial Statements

Year Ended 31 December 2023

Contents

Report of the Independent Auditor	1
Statement of Financial Position	4
Statement of Income and Comprehensive Income	5
Statements of Changes in Shareholder's Equity	6
Statements of Cash Flows	7
Notes to the Financial Statements	8

Hiscox Insurance Company (Bermuda) Limited
Statement of Financial Position

As of 31 December 2023
(expressed in thousands of U.S. dollars, except per share and share amounts)

	2023	2022	2021
		(restated)*	(restated)*
Assets			
Cash and cash equivalents (Note 5)	\$ 461,213	\$ 484,677	\$ 248,388
Financial assets carried at fair value (Notes 8 and 12)	1,693,826	1,629,608	1,953,158
Reinsurance contract held assets (Note 7)	653,859	954,000	949,991
Deferred tax (Note 11)	150,000	-	-
Loans and receivables (Note 9)	128,466	86,688	85,075
Total assets	\$3,087,364	\$3,154,973	\$3,236,612
Liabilities			
Insurance contract liabilities (Note 7)	\$1,326,257	\$1,765,066	\$1,886,312
Trade and other payables (Note 10)	26,100	18,785	29,779
Total liabilities	1,352,357	1,783,851	1,916,091
Shareholder's equity			
Common shares (par value \$1.00; authorised, issued and fully paid, 100,000,000)	\$100,000	\$100,000	100,000
Contributed surplus	1,103,280	1,103,280	1,103,280
Retained earnings	531,727	167,842	117,241
Total shareholder's equity	1,735,007	1,371,122	1,320,521
Total liabilities and shareholder's equity	\$3,087,364	\$3,154,973	\$3,236,612

*Restated for the adoption of IFRS 17 and IFRS 9 see Note 3.1

The accompanying notes are an integral part of the financial statements

Signed on behalf of the Board:

Director

Director

Hiscox Insurance Company (Bermuda) Limited
Statement of Income and Comprehensive Income

Year Ended 31 December 2023
(expressed in thousands of U.S. dollars)

	2023	2022
		(restated)*
Insurance revenue	\$ 1,629,815	\$ 1,441,658
Insurance service expense	(713,269)	(1,478,663)
Insurance service result before reinsurance contracts held	916,546	(37,005)
Allocation of reinsurance premiums	(470,389)	(503,618)
Amounts recoverable from reinsurers for incurred claims	4,440	772,494
Net expense from reinsurance contracts held	(465,949)	268,876
Insurance service result	450,597	231,871
Investment result (Note 6)	116,509	(77,262)
Net finance income (expenses) from insurance contracts	(101,097)	89,593
Net finance income (expenses) from reinsurance contracts	26,192	(23,927)
Net insurance finance income (expenses)	(74,905)	65,666
Net insurance and investment result	492,201	220,275
Other income	750	-
Other operational expenses	(3,362)	(983)
Net other foreign exchange gain (loss)	962	(22,641)
Other finance costs	(1,204)	(1,061)
Profit (loss) before tax	489,347	195,590
Tax credit (expense)	150,000	-
Total comprehensive income for the year	\$ 639,347	\$195,590

*Restated for the adoption of IFRS 17 and IFRS 9 see Note 3.1

The accompanying notes are an integral part of the financial statements.

Hiscox Insurance Company (Bermuda) Limited
Statements of Changes in Shareholder's Equity

Year ended 31 December 2023
(expressed in thousands of U.S. dollars, except share amounts)

	2023	2022 (restated)
Common Shares		
Balance, beginning and end of year	100,000,000	100,000,000
Common Shares (Note 15)		
Balance, beginning and end of year	\$ 100,000	\$ 100,000
Contributed surplus		
Balance, beginning of year	1,103,280	1,103,280
Balance, end of year	\$1,103,280	\$1,103,280
Retained earnings (Note 15)		
Balance, beginning of year (as previously stated)	2,319	90,962
Impact of adoption of IFRS 17 and IFRS 9 (Note 3.1)	165,523	26,290
Balance restated, beginning of year at transition, 1 Jan	167,842	117,252
Net income	639,347	195,590
Dividends declared	(275,462)	(145,000)
Balance, end of year	\$ 531,727	\$ 167,842
Total shareholder's equity	\$1,735,007	\$1,371,122

The accompanying notes are an integral part of the financial statements.

Hiscox Insurance Company (Bermuda) Limited
Statements of Cash Flows

Year Ended 31 December 2023
(expressed in thousands of U.S. dollars)

	2023	2022
		(restated)*
Operating activities		
Net income	\$ 639,347	\$ 195,590
Adjustments to reconcile net income to net cash provided by operating activities:		
Tax credit from deferred tax asset	(150,000)	-
Share compensation expense	5,265	2,551
Investment loss (income)	(88,643)	2,875
Unrealised losses (gains) on foreign exchange	(1,495)	31,303
Net fair value losses (gains) on financial assets	(36,371)	94,113
Changes in operational assets and liabilities:		
Financial assets carried at fair value	77,722	182,037
Loans and receivables	(38,465)	(36,646)
Reinsurance contract held assets	299,593	33,471
Insurance contract liabilities	(468,180)	(90,725)
Trade and other payables	6,635	(12,246)
Net cash provided by operating activities	<u>245,408</u>	<u>402,323</u>
Financing activities		
Dividends paid	(275,462)	(145,000)
Net cash used in financing activities	<u>(275,462)</u>	<u>(145,000)</u>
Net change in cash and cash equivalents	(30,054)	257,323
Cash and cash equivalents, beginning of year	484,677	248,388
Effect of exchange rate movements on cash	6,590	(21,034)
Cash and cash equivalents, end of year	<u>\$ 461,213</u>	<u>\$ 484,677</u>

*Restated for the adoption of IFRS 17 and IFRS 9 see Note 3.1

The accompanying notes are an integral part of the financial statements.

Hiscox Insurance Company (Bermuda) Limited
Notes to the Financial Statements
(expressed in U.S. dollars)

1. Company Information

Hiscox Insurance Company (Bermuda) Limited (the “Company”) was incorporated under the laws of Bermuda on 21 October 2005. The Company is a global provider of property catastrophe and specialty reinsurance coverage to both third party and affiliate insurers and reinsurers. The Company is registered as a Class 4 insurer under The Insurance Act 1978 (Bermuda) and is a wholly owned subsidiary of Hiscox Ltd (the “Parent” or “Group”), a company incorporated in Bermuda and publicly traded on the London Stock Exchange. The Company’s registered office is 96 Pitts Bay Road Pembroke, Bermuda.

2. Basis of Presentation

2.1 Statement of compliance

These financial statements are prepared in accordance with IFRS® Accounting Standards’ (“IFRS”) as issued and adopted by the International Accounting Standards Board (“IASB”). These financial statements were examined and authorised by the Board of Directors and adopted at the meeting of the Board of Directors (“the Board”) held on 22 April 2024. The Board has the power to amend these financial statements subsequent to issuance.

2.2 Basis of preparation

The financial statements have been prepared on a going concern basis.

In adopting the going concern basis, the Board has reviewed the 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 Board uses scenario analysis and stress testing to assess the robustness of the entity’s solvency and liquidity positions. In undertaking this analysis, no material uncertainty in relation to going concern has been identified. This is due to the strong capital and liquidity positions, which provide considerable resilience to the scenarios and stresses, underpinned by the Company’s approach to risk management which is described in Note 4. After making enquiries, the Board has a reasonable expectation that the Company 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 Company continues to adopt the going concern basis in preparing the financial statements.

The balance sheet of the Group is presented in order of increasing liquidity. All amounts presented in the income statement and statement of comprehensive income relate to continuing operations.

2.3 Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates (the “functional currency”). The financial statements are presented in United States Dollars (“\$”), which is also the Company’s functional currency. The Bermuda Dollar is on par with the United States Dollar.

Hiscox Insurance Company (Bermuda) Limited
Notes to the Financial Statements (continued)
(expressed in U.S. dollars)

3. Material accounting policies information

The principal accounting policies applied in the preparation of these financial statements are set out below. The most critical individual components of these financial statements that involve the highest degree of judgement or significant assumptions and estimations are identified in Note 3.8.

Except as described below, the accounting policies adopted are consistent with those of the previous financial year.

3.1 New accounting standards, interpretations and amendments to published standards, and future accounting developments

The Company has applied IFRS 17 and IFRS 9 for the first time in these financial statements. The Company has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

(\$ in thousands)	December 31,2022/January 1,2023 \$	December 31,2021/January 1,2022 \$
Equity as at 31 December as previously reported	1,205,599	1,294,242
Impact of IFRS 17	165,523	26,290
Impact of IFRS 9	-	-
Restated equity at transition, 1 January	1,371,122	1,320,532

3.1.1. IFRS 17 Insurance Contracts

The Company has restated comparative information for 2022 applying the full retrospective transitional provisions of IFRS 17 Insurance Contracts.

The nature of the changes in accounting policies can be summarised, as follows:

Measurement

IFRS 17 requires a current measurement model where estimates are remeasured each reporting period. Under the General Measurement Model ("GMM"), contracts are measured using the building blocks of discounted probability-weighted fulfilment cash flows, an explicit risk adjustment, and a contractual service margin ("CSM") representing the unearned profit of the contract which is recognised as revenue over the coverage period. A simplification, the Premium Allocation Approach ("PAA"), can be applied if certain eligibility criteria are met. The majority of the Company's policies (both issued and held) have a coverage period of 12 months or less and so are eligible for the PAA. Management applies significant judgements in assessing whether applying the PAA to groups of contracts with a coverage period extending beyond 12 months which would produce a measurement of the liability for remaining coverage (LRC) that would not differ materially from the one that would be produced applying GMM. Management has concluded that a

Hiscox Insurance Company (Bermuda) Limited
Notes to the Financial Statements (continued)
(expressed in U.S. dollars)

majority of the Company's insurance contracts issued and reinsurance contracts held meet the criteria and the PAA is applied to measure them.

The measurement principles differ from the approach used by the Company under IFRS 4. The key areas are:

- the LRC reflects premiums received less deferred insurance acquisition cash flows and less amounts recognised in insurance service revenue. The Company has taken the option not to discount the LRC;
- measurement of the LRC is adjusted if a group of contracts is expected to be onerous (i.e. loss making) over the remaining coverage period and a loss is recognised immediately in the Statement of Income and Comprehensive Income under 'insurance service expenses' with the recoveries in 'amounts recoverable from reinsurers for incurred claims'. A loss component is measured as the excess of the fulfilment cash flows that relate to the remaining coverage of the group over the carrying amount of the LRC of the group of contracts;
- measurement of the liability for incurred claims (LIC) is determined on a probability-weighted expected value basis. In contrast to IFRS 4, the LIC is discounted. The LIC also includes an explicit risk adjustment to compensate for non-financial risk. The liability includes the Company's obligation to pay other incurred insurance expenses;
- the discount rates used to calculate the LIC are constructed using risk free rates, plus an illiquidity premium, where applicable. Risk free rates are determined by reference to the market observable data (swap rates or highly liquid sovereign bonds) in the currencies of the respective (re)insurance contract liabilities. The illiquidity premium is determined based on market observable illiquidity premiums in financial assets, adjusted to reflect the liquidity characteristics of the liability cash flows;
- the risk adjustment for non-financial risk is the estimated compensation that the Company requires for bearing the uncertainty about the amount and timing of the cash flows of groups of insurance contracts. Management applies significant judgements in determining the risk adjustment amount;
- measurement of the reinsurance contract asset for remaining coverage ("ARC") reflecting reinsurance premiums paid for reinsurance held is adjusted to include a loss-recovery component to reflect the expected recovery of onerous contract losses where such contracts reinsure onerous contracts;
- measurement of the reinsurance asset for incurred claims ("AIC") is similar to the LIC as set out above, except it also includes an adjustment for the effect of the risk of reinsurer's non-performance;
- the expected premium received is recognised in the Statement of Income and Comprehensive Income as part of insurance service revenue over the insurance coverage period on the basis of the passage of time unless the expected pattern of release from risk differs significantly from the passage of time, in which case it is recognised based on the expected timing of incurred claims and benefits;
- all insurance and reinsurance contract assets and liabilities are monetary items. As a result, those balances denominated in foreign currencies are subject to revaluation at foreign exchange rates prevailing at the reporting date, with the impact of changes in foreign exchange rates recognised in the Statement of Income and Comprehensive Income;
- under IFRS 4, acquisition costs were recognised and presented separately as 'deferred acquisition costs'. Under IFRS 17, the Company has taken the option to include directly attributable acquisition cash flows in the LRC, which are tested separately for recoverability and are amortised as part of insurance service expenses.

Hiscox Insurance Company (Bermuda) Limited
Notes to the Financial Statements (continued)
(expressed in U.S. dollars)

Changes to presentation and disclosure

The presentation of the Statement of Income and Comprehensive Income changes, with premium and claims figures being replaced with insurance contract revenue, insurance service expense and insurance finance income and expense. Gross and net written premium will no longer be presented on the face of the Statement of Income and Comprehensive Income.

Further, reinsurance commission income that is contingent on claims, for example, profit commission income is treated as a part of claims recoveries cash flows and that which is not contingent on claims e.g. override commission is accounted for as part of premium paid or received cash flows.

Transition

On transition date, 1 January 2022, the Company:

- has identified, recognised and measured each group of insurance contracts as if IFRS 17 requirements had always applied;
- derecognised any existing balances that would not exist had IFRS 17 requirements always applied;
- performed a PAA eligibility assessment for the 2021 and prior unexpired groups of insurance and reinsurance contracts with coverage periods of longer than 12 months;
- has determined that the net impact to equity at 1 January 2022 was \$26.3 million increase driven by the following factors:
 - the application of the discounting of the insurance contract liabilities and assets of approximately \$11.6 million increase;
 - the application of seasonal earnings on the catastrophe exposed external business of \$7.7m increase;
 - adjustment of insurance contract liabilities on a whole account internal quota share of \$21.5m increase (for seasonality, and discounting);
 - offset by the revaluation of unearned premiums and deferred acquisition costs and recognition of non-performance risk on reinsurance contract assets summing up to \$6.9m decrease; and
 - adjustment of risk margin on an internal quota share \$7.6m decrease.

3.1.2 IFRS 9 Financial Instruments

The Company has adopted IFRS 9 Financial instruments with effect from 1 January 2023. IFRS 9 replaces IAS 39 and addresses the classification and measurement of financial assets and liabilities; impairment of financial assets; and general hedge accounting. Comparatives have been restated with adjustments to the carrying amounts of financial assets and liabilities at the date of transition recognised in retained earnings.

The adoption of IFRS 9 has resulted in changes to the Group's accounting policies for recognition, classification and measurement of financial assets and liabilities.

Hiscox Insurance Company (Bermuda) Limited
Notes to the Financial Statements (continued)
(expressed in U.S. dollars)

Transition

On the transition date, 1 January 2023, the net impact recognised in equity is \$nil.

Classification and measurement of financial instruments

IFRS 9 contains three principal classification categories for financial assets: amortised cost; fair value through other comprehensive income ("FVOCI"); and fair value through profit or loss ("FVPL"). On transition to IFRS 9, the Company assessed the business models and contractual cash flows of its financial instruments.

The following table reconciles the carrying amounts of financial instruments, from their previous measurement category in accordance with IAS 39, to the measurement categories upon transition to IFRS 9 on 1 January 2023, including any re-measurement impact. Certain balances previously disclosed within Trade and other receivables/payables are in scope of IFRS 17 as they are attributable to insurance contracts, these balances have been excluded from the table below as they are not in scope of IFRS 9.

	IAS 39 Measurement category	IFRS 9 Measurement category
Government gilts/Bonds	FVPL	FVPL (mandatory)
Corporate bonds	FVPL	FVPL (mandatory)
Asset backed securities	FVPL	FVPL (mandatory)
Mortgage backed securities	FVPL	FVPL (mandatory)
Other fixed income holdings	FVPL	FVPL (mandatory)
Hedge/Equity funds	FVPL	FVPL (mandatory)
Strategic investments	FVPL	FVPL (mandatory)
Insurance linked funds	FVPL	FVPL (mandatory)
Deposits with credit institutions (Lloyds deposits)	Loans and receivables (Amortised cost)	Amortised cost
Derivatives	FVPL	FVPL (mandatory)
Trade and other receivables	Loans and receivables (Amortised cost)	Amortised cost
Cash and cash equivalents	Amortised cost	Amortised cost
Financial liabilities		
Borrowings and accrued interest	Amortised cost	Amortised cost
Derivatives	FVPL	FVPL (mandatory)
Trade and other payables	Amortised cost	Amortised cost

The classification of financial instruments under IFRS 9 has had no impact on the carrying values previously measured under IAS 39.

Hiscox Insurance Company (Bermuda) Limited
Notes to the Financial Statements (continued)
(expressed in U.S. dollars)

Impairment allowances

IFRS 9 introduces an Expected Credit Loss (“ECL”) approach for measuring impairment allowances. The ECL methodology is an unbiased, probability-weighted estimation that incorporates all available information relevant to the assessment of credit risk, including information about past events, current conditions and reasonable and supportable forecasts of economic conditions at the reporting date. The forward-looking aspect of IFRS 9 requires judgement as to how changes in economic factors affect ECLs. There were no impairment allowances required to be recognized upon adoption.

3.1.3 Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality judgements — Disclosure of Accounting Policies

The Company has adopted the amendments to IAS 1 for the first time in the current year. The amendments change the requirements in IAS 1 with regard to disclosure of accounting policies. The amendments replace all instances of the term ‘significant accounting policies’ with ‘material accounting policy information’.

Other than discussed above, new standards, amendments to standards and interpretations that are effective for annual periods beginning on 1 January 2023 have been applied in preparing these financial statements and had no material impact on the Company.

- Amendments to IAS 12 Income Taxes — Deferred Tax related to Assets and Liabilities arising from a Single Transaction
- Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors — Definition of Accounting Estimates

(b) Future accounting developments

The following new standards, and amendments to standards, are effective for annual periods beginning after 1 January 2024 and have not been applied in preparing these financial statements:

- Amendments to IAS 1 – Classification of Liabilities as Current or Non-Current and Non-current liabilities with Covenants.
- Amendments to IFRS 16 – Lease liability in a Sale and Leaseback
- Amendments to IAS 7 and IFRS 7 – Supplier finance arrangements
- Amendments to IFRS 10 and IAS 28 – Sale or contribution of assets between an investor and its associate or joint venture.

The impact of these future accounting standards is not expected to be material to the Company.

Hiscox Insurance Company (Bermuda) Limited
Notes to the Financial Statements (continued)
(expressed in U.S. dollars)

3.2 Insurance and reinsurance contracts

The accounting policy set out below is applicable to insurance and reinsurance contracts that are issued by the Company and reinsurance contracts held by the Company unless indicated otherwise.

(a) Classification

Insurance contracts are defined as those containing significant insurance risk. Significant insurance risk criteria are met if, and only if, an insured event could cause an insurer to make significant additional payments in any scenario, excluding scenarios that lack commercial substance, at the inception of the contract. Such contracts remain insurance contracts until all rights and obligations are extinguished or expire.

The Company issues short-term casualty and property (re)insurance contracts in the normal course of business, under which it accepts significant insurance risk from its policyholders. The Company also enters into ceded reinsurance contracts with reinsurers under which the Company transfers significant insurance risk to reinsurers and is compensated for claims on contracts issued by the Company.

(b) Separating components

The Company assesses its insurance and reinsurance products to determine whether they contain distinct components which must be accounted for under another IFRS instead of under IFRS 17. After separating any distinct components, the Company applies IFRS 17 to all remaining components of the (host) insurance contract. Currently, the Company's products do not include any distinct components that require separation.

Some reinsurance contracts issued contain profit commission arrangements. Under certain of these arrangements, there is a guaranteed minimum amount that the policyholder will always receive – either in the form of profit commission, or as claims, or another contractual payment irrespective of the insured event happening. The guaranteed minimum amounts have been assessed to be highly interrelated with the insurance component of the reinsurance contracts and are, therefore, non-distinct investment components which are not accounted for separately. However, receipts and payments of these investment components are excluded from insurance revenue and expenses.

(c) Level of aggregation

Insurance contracts are aggregated into groups for measurement purposes. The level of aggregation is determined firstly by grouping contracts into portfolios which, with some limited exceptions, are set as the reserving classes of each legal entity. Portfolios comprise groups of contracts with similar risks which are managed together. Portfolios are further divided based on expected profitability at inception into three categories: onerous contracts, contracts with no significant risk of becoming onerous, and the remainder. No group for level of aggregation purposes may contain contracts issued more than one year apart. The grouping of contracts is not subsequently reconsidered.

A group of insurance contracts is considered to be onerous at initial recognition if the fulfilment cashflows allocated to that group of contracts in total are a net outflow. That is if the present value of expected claims, attributable expenses and risk adjustment exceeds the premium.

Hiscox Insurance Company (Bermuda) Limited
Notes to the Financial Statements (continued)
(expressed in U.S. dollars)

Portfolios of reinsurance contracts held are assessed for aggregation separately from portfolios of insurance contracts issued. Reinsurance contracts held cannot be onerous.

(d) Recognition and derecognition

Groups of insurance contracts issued are initially recognised from the earliest of the following:

- the beginning of the coverage period;
- the date when the first payment from the policyholder is due, or actually received if there is no due date; and
- when the Company determines that a group of contracts becomes onerous.

Insurance contracts acquired in a business combination within the scope of IFRS 3 Business Combinations or a portfolio transfer are accounted for as if they were entered into at the date of acquisition or transfer.

Reinsurance contracts held are recognised as follows:

- a group of reinsurance contracts held that provide proportionate coverage is recognised at the later of:
 - the beginning of the coverage period of the group; and
 - the initial recognition of any underlying insurance contract;
- all other groups of reinsurance contracts held are recognised from the beginning of the coverage period of the group of reinsurance contracts held; unless the Company entered into the reinsurance contract held at or before the date when an onerous group of underlying contracts is recognised prior to the beginning of the coverage period of the group of reinsurance contracts held, in which case the reinsurance contract held is recognised at the same time as the group of underlying insurance contracts is recognised.

Only contracts that individually meet the recognition criteria by the end of the reporting period are included in the groups. When contracts meet the recognition criteria in the groups after the reporting date, they are added to the groups in the reporting period in which they meet the recognition criteria. Composition of the groups is not reassessed in subsequent periods.

An insurance contract is derecognised when it is:

- extinguished (that is, when the obligation specified in the insurance contract expires or is discharged or cancelled); or
- the contract is modified such that the modification results in a change in the measurement model e.g. GMM or the applicable standard for measuring a component of the contract, substantially changes the contract boundary, or requires the modified contracts to be included in a different group.

When a modification is not treated as a derecognition, the Company recognises amounts paid or received for the modification of the contract as an adjustment to the relevant liability or asset for remaining coverage.

When a group of insurance contracts is derecognised, adjustments to remove related rights and obligations result in the following amounts being charged immediately to Statement of Income and Comprehensive Income:

- if the contract is extinguished, any net difference between the derecognised part of the LRC of the original contract and any other cash flows arising from extinguishment;

Hiscox Insurance Company (Bermuda) Limited
Notes to the Financial Statements (continued)
(expressed in U.S. dollars)

- if the contract is transferred to the third party, any net difference between the derecognised part of the LRC of the original contract and the premium charged by the third party; or
- if the original contract is modified resulting in its derecognition, any net difference between the derecognised part of the LRC and the hypothetical premium that the entity would have charged if it had entered into a contract with equivalent terms as the new contract at the date of the contract modification, less any additional premium charged for the modification

(e) Contract boundary

The Company uses the concept of contract boundary to determine what cash flows should be considered in the measurement of groups of insurance contracts. Cash flows are within the boundary of an insurance contract if they arise from substantive rights and obligations that exist during the reporting period in which the Company can compel the policyholder to pay the premiums, or in which the Company has a substantive obligation to provide the policyholder with services. A substantive obligation to provide services ends when:

- The Company has the practical ability to reassess the risks of the particular policyholder and, as a result, can set a price or level of benefits that fully reflects those risks; or
- Both of the following criteria are satisfied:
 - The Company has the practical ability to reassess the risks of the portfolio of insurance contracts that contain the contract and, as a result, can set a price or level of benefits that fully reflects the risk of that portfolio; and
 - The pricing of the premiums for coverage up to the date when the risks are reassessed does not take into account the risks that relate to periods after the reassessment date.

A liability or asset relating to expected premiums or claims outside the boundary of the insurance contract is not recognised. Such amounts relate to future insurance contracts.

(f) Measurement – Premium Allocation Approach

Initial measurement

The Company applies the PAA to all the insurance contracts that it issues and reinsurance contracts that it holds, because:

- The coverage period of each contract in the group is one year or less; or
- For contracts longer than one year, the Company has modelled possible future scenarios and reasonably expects that the measurement of the LRC for the group containing those contracts under the PAA does not differ materially from the measurement that would be produced applying the general model.

For insurance contracts issued, on initial recognition, the Company measures the LRC as the amount of premiums received, less any acquisition cash flows paid and any amounts arising from the derecognition of the insurance acquisition cash flows asset and the derecognition of any other relevant pre-recognition cash flows.

For reinsurance contracts held, on initial recognition, the Company measures the remaining coverage at the amount of ceding premiums paid, plus broker fees paid to a party other than the reinsurer and any amounts arising from the derecognition of any other relevant pre-recognition cash flows.

Hiscox Insurance Company (Bermuda) Limited
Notes to the Financial Statements (continued)
(expressed in U.S. dollars)

For insurance contracts issued, insurance acquisition cash flows allocated to a group are deferred and recognised over the coverage period of contracts in a group. For reinsurance contracts held, broker fees are recognised over the coverage period of contracts in a group.

Subsequent measurement

For insurance contracts issued, at each of the subsequent reporting dates, the LRC is:

- increased for premiums received in the period;
- decreased for insurance acquisition cash flows paid in the period;
- decreased for the amounts of expected premium receipts recognised as insurance revenue for the services provided in the period;
- increased for the amortisation of insurance acquisition cash flows in the period recognised as insurance service expenses; and
- decreased for any investment component paid or transferred to the liability for incurred claims.

For reinsurance contracts held, at each of the subsequent reporting dates, the remaining coverage is:

- increased for ceding premiums paid in the period;
- increased for broker fees paid in the period;
- decreased for the expected amounts of ceding premiums and broker fees recognised as reinsurance expenses for the services received in the period; and
- decreased for any investment component paid or transferred to the reinsurance assets for incurred claims.

The Company does not adjust the LRC for insurance contracts issued or the remaining coverage for reinsurance contracts held for the effect of the time value of money, because insurance premiums are due within one year of the coverage period.

The Company estimates the LIC as the fulfilment cash flows related to incurred claims. The fulfilment cash flows incorporate, in an unbiased way, all reasonable and supportable information available without undue cost or effort about the amount, timing and uncertainty of those future cash flows, they reflect current estimates from the perspective of the entity, and include an explicit adjustment for non-financial risk (the risk adjustment). In addition, the Company adjusts the AIC for the effect of the risk of reinsurer's non-performance.

If facts and circumstances indicate that a group of insurance contracts measured under the PAA is onerous on initial recognition or has become onerous subsequently, the Company increases the carrying amount of the LRC, recognising a loss component, to the amounts of the excess of the fulfilment cash flows that relate to the remaining coverage of the group of contracts, over the carrying amount of the LRC of the group. The amount of such an increase is recognised in insurance service expenses. Subsequently, the loss component is amortised over the coverage period of the group of contracts.

When a loss is recognised on initial recognition of an onerous group of underlying insurance contracts or on addition of onerous underlying insurance contracts to that group, the carrying amount of the reinsurance asset for remaining coverage for reinsurance contracts held measured under the PAA is increased by the

Hiscox Insurance Company (Bermuda) Limited
Notes to the Financial Statements (continued)
(expressed in U.S. dollars)

amount of expected recoveries that will be in the Statement of Income and Comprehensive Income and a loss-recovery component is established or adjusted for that amount. The loss recovery component is calculated by multiplying the loss component recognised on underlying insurance contracts by the percentage of claims on underlying insurance contracts that the Company expects to recover from the reinsurance contracts held that are entered into before or at the same time as the loss is recognised on the underlying insurance contracts. When underlying insurance contracts that are reinsured are included in the same group as insurance contracts issued that are not reinsured, the Company applies a systematic and rational method of allocation to determine the portion of losses that relates to underlying insurance contracts.

(g) Insurance revenue

The insurance revenue for the period is the amount of expected premium receipts (excluding any investment component) allocated to the period. The Company allocates the expected premium receipts to each period of insurance contract services on the basis of the passage of time. But if the expected pattern of release of risk during the coverage period differs significantly from the passage of time, for example a group of contracts that is exposed to large natural catastrophe risk concentrated in the first or second half of the year, then the allocation is made on the basis of the expected timing of incurred insurance service expenses.

Changes to basis of allocation are accounted for prospectively as a change in accounting estimate.

(h) Insurance service expenses

Insurance service expenses include the following:

- incurred claims and benefits, excluding investment components reduced by loss component allocations;
- other incurred directly attributable expenses;
- insurance acquisition cash flows amortisation using the pattern that is consistent with the insurance revenue;
- changes that relate to past service;
- changes that relate to future service;
- insurance acquisition cash flows assets impairment; and
- mandatory reinstatement premiums.

Other expenses not meeting the above categories are included in other operating expenses in the Statement of Income and Comprehensive Income.

(i) Allocation of reinsurance premiums

The allocation of reinsurance premiums includes reinsurance premiums and other directly incurred attributable expenses.

Reinsurance premium and expenses are recognised similarly to insurance revenue. The amount of reinsurance expenses recognised in the reporting period depicts the transfer of received insurance contract services at an amount that reflects the portion of ceding premiums that the Company expects to pay in exchange for those services. Additionally, broker fees and ceding commissions that are not contingent on claims of the underlying contracts issued reduce ceding premiums and are accounted for as part of reinsurance premiums.

Hiscox Insurance Company (Bermuda) Limited
Notes to the Financial Statements (continued)
(expressed in U.S. dollars)

In addition, the allocation of reinsurance premiums also includes changes in the reinsurance assets arising from retroactive reinsurance contracts held and voluntary reinstatement ceded premiums.

(j) Amounts recoverable from reinsurers for incurred claims

The amounts recoverable from reinsurers for incurred claims include:

- incurred claims recoveries, excluding investment components
- loss-recovery component allocations;
- changes that relate to past service;
- effect of changes in the risk of reinsurers' non-performance;
- amounts relating to accounting for onerous groups of underlying insurance contracts issued;
- ceding commissions that are contingent on claims of the underlying contracts issued reduce incurred claims recovery; and
- mandatory reinstatement ceded premiums.

(k) Insurance finance income or expenses

Insurance finance income or expenses comprise the change in the carrying amount of the group of insurance contracts arising from:

- the effect of the time value of money and changes in the time value of money. This mainly comprises of interest accreted on the LIC and interest unwind on the AIC; and
- the effect of financial risk and changes in financial risk. This mainly includes the effect of changes in interest rates i.e., discount rates.

The Company does not disaggregate changes in the risk adjustment for non-financial risk between insurance service result and insurance finance income or expenses. The change in the risk adjustment is entirely presented as part of the insurance service result.

Foreign exchange gains and losses continue to be presented as Net other foreign exchange gain (loss) line item.

3.3 Financial assets and liabilities

The Company classifies its financial assets in the following measurement categories, which depends on the business model for managing the financial assets and the contractual terms of the cash flows:

- **Amortised cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ("SPPI"), and that are not designated at FVPL are measured at amortised cost. Interest income from these financial assets is included in interest income using the effective interest rate method. Such assets held by the Company include cash and cash equivalents, receivables from contract holders/brokers, prepayments and accrued income, receivables and accrued interest, and other debtors.
- **Fair Value through Other Comprehensive Income (FVOCI):** Assets that are held for collection of contractual cash flows and for selling the financial assets, and where the cash flows represent SPPI, and that are not designated as FVPL are measured at FVOCI. Movements in the carrying amount are taken

Hiscox Insurance Company (Bermuda) Limited
Notes to the Financial Statements (continued)
(expressed in U.S. dollars)

through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss on the instrument's amortised cost previously recognised in OCI is reclassified from equity to profit or loss. Interest income from these financial assets is included in interest income using the effective interest rate method. The Company does not hold any assets at FVOCI as the business model criteria are not met.

- Fair Value through Profit and Loss (FVPL): Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. Assets can also be designated to FVPL if in doing so it eliminates, or significantly reduces, an accounting mismatch. The gains or losses arising from fair value changes on assets measured at FVPL is recognised in profit or loss and presented within 'investment result' in the period in which it arises. The Company's investment assets in this category include government bonds, corporate bonds, asset and mortgage-backed securities, other fixed income holdings, equities, investment funds and derivatives. All these assets are at FVPL because of the business model test and the characteristics of the associated contractual cash flows.

(a) Recognition

The Company recognises a financial asset or a financial liability in its statement of financial position when, and only when, it becomes a party to the contractual provisions of the instrument. At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at FVPL, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

(b) Impairment allowances

IFRS 9 outlines an ECL model for all assets measured at amortised cost and FVOCI. The assessment of credit risk and the estimation of an ECL are unbiased, probability-weighted and incorporate all available information relevant to the assessment, including information about past events, current conditions and reasonable and supportable forecasts of economic conditions at the reporting date. The forward-looking aspect of IFRS 9 requires judgement as to how changes in economic factors affect ECLs. Impairment charges are recognised in the Statement of Income and Comprehensive Income within operational expenses.

The ECL is a three-stage model based on forward looking information regarding changes in credit quality since inception. Credit risk is measured using a probability of default ("PD"); exposure at default ("EAD"); and loss given default ("LGD") as follows:

- PD is an estimate of the likelihood of default of the asset.
- EAD is an estimate of the exposure at that future default date, taking into account expected changes in the exposure after the reporting date.
- LGD is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the Company would expect to receive. It is usually expressed as a percentage of the exposure at default.

The three stages of ECL are defined and assessed as follows:

Stage 1 – no significant increase in credit risk since inception, ECL is calculated using a 12-month PD

Stage 2 – a significant increase in credit risk since inception, ECL is calculated using a lifetime PD

Stage 3 – credit impaired, ECL is calculated using a lifetime PD

Hiscox Insurance Company (Bermuda) Limited
Notes to the Financial Statements (continued)
(expressed in U.S. dollars)

A significant increase in credit risk is considered to have incurred when payments are 30 days past due, or earlier if other factors indicate the risk has increased significantly since inception.

Financial assets are written off when there is no reasonable expectation of recovery on a case-by-case basis.

(c) Derecognition

Financial assets are derecognised when the contractual rights to receive the cash flows from the financial assets have expired; or they have been transferred and the Company transfers substantially all the risks and rewards of ownership; or they have been transferred and the Company neither transfers nor retains substantially all the risks and rewards of ownership and the Company has not retained control. Any gain or loss arising from derecognition is recognised directly in profit or loss. A financial liability is derecognised when the obligation under that liability is discharged, cancelled or expires.

(d) Investment income

The total gain/loss from financial assets carried at FVPL is recognised in profit and loss and disclosed in the notes by investment income comprising interest received, realised gains/losses and unrealised gains/losses.

(e) Financial liabilities

At initial recognition, the Company classifies a financial liability at fair value and subsequently at amortised cost, using the effective interest method. Financial liabilities mainly include short term borrowings, and other creditors.

When all or part of the current obligations of a financial liability have been discharged, the Company derecognises the portion of the financial liability or obligation that has been discharged. The difference between the carrying amount of the derecognised liability and the consideration is recognised in profit or loss.

Derivative financial liabilities are measured at FVPL. All the related realised and unrealised gains (losses) and transaction costs are recognised in profit or loss.

(f) Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently valued at fair value at each statement of financial position date. Fair values are obtained from quoted market values and, if these are not available, valuation techniques including option pricing models are used as appropriate. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged. For derivatives not formally designated as a hedging instrument, fair value changes are recognised immediately in the Statement of Income and Comprehensive Income. Changes in the value of derivatives and other financial instruments formally designated as hedges of net investments in foreign operations are recognised in the currency translation reserve to the extent they are effective; gains or losses relating to the ineffective portion of the hedging instruments are recognised immediately in the Statement of Income and Comprehensive Income.

Hiscox Insurance Company (Bermuda) Limited
Notes to the Financial Statements (continued)
(expressed in U.S. dollars)

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

3.4 Cash and cash equivalents

The Company has classified cash deposits and short-term highly liquid investments as cash and cash equivalents. These assets are readily convertible into known amounts of cash and are subject to inconsequential changes in value. Cash equivalents are financial investments with less than three months to maturity at the date of acquisition.

3.5 Related party transactions

IAS 24 Related Party Disclosures defines related parties, among others, as parent companies and subsidiaries, subsidiaries of a common parent company, associated companies, legal entities under the influence of management and the management of the company itself.

All related party transactions have been recorded in accordance with IAS 24 and include business both assumed and ceded under usual market conditions. Please refer to Note 14 for related party disclosures.

3.6 Foreign currency translation

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the remeasurement at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as IFRS 9 effective net investment hedges. Non-monetary items carried at historical cost are remeasured on the balance sheet at the exchange rate prevailing on the original transaction date. Non-monetary items measured at fair value are translated using the exchange rate ruling when the fair value was determined.

3.7 Income taxes and uncertain tax positions

In December 2023, Bermuda enacted the Corporate Income Tax Act 2023 to be effective in 2025. It imposes a 15% corporate income tax on the net taxable income of each in scope Bermuda Constituent Entity Group. The impact of this new tax legislation has been determined and disclosed in Note 10.

Current tax, including corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date. A provision is recognised for those matters for which the tax determination is uncertain but it is considered probable that there will be a future outflow of funds to a tax authority. The provisions are measured at the best estimate of the amount expected to become payable. The assessment is based on the judgement of tax professionals within the Group supported by previous experience in respect of such activities and, in certain cases, based on advice sought from specialist tax advisors.

Hiscox Insurance Company (Bermuda) Limited
Notes to the Financial Statements (continued)
(expressed in U.S. dollars)

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

3.8 Use of significant accounting judgments, estimates and assumptions

The preparation of financial statements requires the Company to select accounting policies and make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses in the financial statements.

The audit committee reviews the reasonableness of critical judgments, estimates and assumptions applied and the appropriateness of material accounting policies information.

Significant accounting judgments

The following areas of judgement are those considered to have a significant impact on the amounts recognised in the consolidated financial statements.

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

Deferred tax asset: measurement of Economic Transition Adjustment

Insurance and reinsurance contracts

The Company applies the PAA to simplify the measurement of insurance contracts. When measuring LRC, the PAA is broadly similar to the Company's previous accounting treatment under IFRS 4. However, when measuring LIC, the Company now discounts cash flows that are expected to occur more than one year after the date on which the claims are incurred and includes an explicit risk adjustment for non-financial risk.

(a) Liability for Incurred Claims

The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques. The Company 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 main assumption underlying these techniques is that a Company's past claims development experience can be used to project future claims development and hence ultimate claims costs. These methods extrapolate the

Hiscox Insurance Company (Bermuda) Limited
Notes to the Financial Statements (continued)
(expressed in U.S. dollars)

development of paid and incurred losses, average costs per claim (including claims handling costs), and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analysed by accident years, but can also be further analysed by geographical area, as well as by significant business lines and claim types. In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios. Instead, the assumptions used are those implicit in the historical claims development data on which the projections are based. Additional qualitative judgement is used to assess the extent to which past trends may not apply in future, (e.g., to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy features and claims handling procedures) in order to arrive at the estimated ultimate cost of claims that present the probability-weighted expected value outcome from the range of possible outcomes, taking account of all the uncertainties involved.

(b) Risk adjustment for non-financial risk

The risk adjustment for non-financial risk is the compensation that the Company requires for bearing the uncertainty about the amount and timing of the cash flows of groups of insurance contracts. The risk adjustment reflects an amount that an insurer would rationally pay to remove the uncertainty that future cash flows will exceed the expected value amount.

To determine the risk adjustment for non-financial risk for reinsurance contracts, the Company applies a combination of a Value at Risk ("VaR") (or a percentile) approach and a scenario-based approach both gross and net of reinsurance and derives the amount of risk being transferred to the reinsurer as the difference between the two results. All business is measured under the PAA model and therefore the Company does not calculate a risk adjustment in relation to LRC excluding loss component.

For the incurred claim liabilities measurement purposes, the Company calculates the risk adjustment using a combination of Value at Risk method and scenario analysis targeting an overall confidence level for the aggregate risk distribution. Scenario analysis is used to determine the level of compensation that the Company requires for bearing uncertainty about the large event-driven claims e.g. natural catastrophe. This element of the compensation for risk takes into consideration the range of potential outcomes from an event and the sensitivities of the loss positions in any modelled scenarios. Given the nature of the underlying business and losses, it is normal for new risks to become apparent or for the magnitude of existing risks to change over time.

At 31 December 2023, the risk adjustment in respect of the LIC net of reinsurance is at the 89th percentile (31 December 2022: 72th percentile).

(c) Premium Allocation Approach eligibility assessment

A simplified measurement model, the PAA, can be applied if certain eligibility criteria are met. The majority of the Company's policies have a coverage period of 12 months or less and so are eligible for the PAA. Management applies significant judgements in assessing whether to apply the PAA to groups of contracts with a coverage period extending beyond 12 months.

Hiscox Insurance Company (Bermuda) Limited
Notes to the Financial Statements (continued)
(expressed in U.S. dollars)

Significant accounting estimates

All estimates are based on management's knowledge of current facts and circumstances, assumptions based on that knowledge and their predictions of future events. Actual results may differ from those estimates, possibly significantly. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

The most critical estimate included within the Company's statement of financial position is the measurement of insurance contract liabilities and reinsurance contract held assets, and in particular the estimate of the liability for incurred claims (LIC). The total gross estimate of LIC as at 31 December 2023 is \$2,877m (2022: \$3,055m). The total estimate for reinsurers' share of losses LIC as at 31 December 2023 is \$1,081m (2022: \$1,278m).

Insurance and reinsurance contracts

In applying IFRS 17 measurement requirements, the following inputs and methods were used that include significant estimates. The present value of future cash flows is estimated using deterministic scenarios. The assumptions used in the deterministic scenarios are derived to approximate the probability-weighted mean of a full range of scenarios.

For the sensitivities with regard to the assumptions made that have the most significant impact on measurement under IFRS 17, please refer to Note 4 Management of risk.

(a) Discount rates

The LIC component of insurance contract liabilities are calculated by discounting expected future cash flows at a risk free rate, plus an illiquidity premium where applicable. Risk free rates were derived using swap rates available in the market denominated in the same currency as the insurance contracts being measured. When swap rates are not available, highly liquid sovereign bonds with the highest e.g., AAA/AA credit rating were used.

Management uses judgement to assess liquidity characteristics of the liability cash flows. The illiquidity premium was estimated based on market observable liquidity premiums in financial assets, adjusted to reflect the illiquidity characteristics of the liability cash flows. The illiquidity premium is determined by reference to market observable AA-rated bonds yield curve in the currency of the insurance contract being measured adjusted to remove both expected and unexpected credit risk.

The following discount rates were applied for the currencies and periods presented below:

	Year end 31 December 2023		
	1 year	3 year	5 year
USD	4.83%	3.92%	3.74%
GBP	4.97%	4.12%	3.82%
EUR	3.49%	2.75%	2.65%
CAD	4.63%	3.69%	3.39%

Hiscox Insurance Company (Bermuda) Limited
Notes to the Financial Statements (continued)
(expressed in U.S. dollars)

	Year end 31 December 2022		
	1 year	3 year	5 year
USD	4.90%	4.24%	4.00%
GBP	4.59%	4.64%	4.55%
EUR	3.12%	3.28%	3.31%
CAD	4.66%	4.03%	3.74%

(b) Estimates of future cash flows to fulfill insurance contracts

Included in the measurement of each group of contracts within the scope of IFRS 17 are all of the future cash flows within the boundary of each group of contracts. The estimates of these future cash flows are based on probability-weighted expected future cash flows. The Company estimates which cash flows are expected and the probability that they will occur as at the measurement date. In setting these expectations, the Company uses information about past events, current conditions and forecasts of future conditions. The Company's estimate of future cash flows is the mean of a range of scenarios that reflect the full range of possible outcomes. Each scenario specifies the amount, timing and probability of cash flows. The probability-weighted average of the future cash flows is calculated using a deterministic scenario representing the probability-weighted mean of a range of scenarios.

Where estimates of expenses-related cash flows are determined at the portfolio level or higher, they are allocated to groups of contracts on a systematic basis, such as activity-based costing method. The Company has determined that this method results in a systematic and rational allocation. Similar methods are consistently applied to allocate expenses of a similar nature.

Acquisition cash flows are typically allocated to groups of contracts based on gross premiums written. This includes an allocation of acquisition cash flows among existing groups of insurance contracts issued. Claims settlement-related expenses are largely allocated based on claims costs.

Uncertainty in the estimation of future claims and benefit payments arises primarily from the severity and frequency of claims and uncertainties regarding future inflation rates leading to claims and claims-handling expenses growth. Assumptions used to develop estimates about future cash flows are reassessed at each reporting date and adjusted where require

Fair value measurements

The Company carries its financial investments at fair value through profit or loss, with fair values determined using published price quotations in the most active financial markets in which the assets trade, where available. Where quoted market prices are not available, valuation techniques are used to value financial instruments. These include third-party valuation reports and models utilising both observable and unobservable market inputs. Valuation techniques involve judgement, including the use of valuation models and their inputs, which can lead to a range of plausible valuations for financial investments. Note 4.3 discusses the reliability of the Company's fair values.

Hiscox Insurance Company (Bermuda) Limited
Notes to the Financial Statements (continued)
(expressed in U.S. dollars)

Tax

Legislation concerning the determination of taxation of assets and liabilities is complex and continually evolving. In preparing the financial statements, the Company applies significant judgements in identifying uncertainties over tax treatments and in the measurement of the provision being the best estimate of the amount expected to become payable. The assessment is based on the judgement of tax professionals within the Group supported by previous experience in respect of such activities and based on advice sought from specialist tax advisors.

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 preparing the Company'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 Company's financial and strategic plans. See Note 10 for further details of adjustments made to deferred tax during the year.

The determination and finalisation of agreed taxation assets and liabilities may not occur until several years after the reporting date and consequently the final amounts payable or receivable may differ.

4. Management of risks

The Company adheres to the Group's overall appetite for accepting and managing varying classes of risk which 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 Group Risk Committee and ongoing compliance therewith, through a dedicated internal audit function, which has operational independence, clear terms of reference influenced by the Group Board's Non-Executive Directors and a clear upwards reporting structure back into the Board. The Group and the Company, in common with the non-life insurance industry generally, is fundamentally driven by a desire to originate, retain and service insurance contracts to maturity. The Company's cash flows are funded mainly through advance premium collections and the timing of such premium inflows is 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 principal sources of risk relevant to the Company's operations and its financial statements fall into three broad categories: operational risk, insurance risk and financial risk, which are described in Notes 4.1, 4.2 and 4.3 below. The Company also actively manages its capital risks as detailed in Note 4.4.

Hiscox Insurance Company (Bermuda) Limited
Notes to the Financial Statements (continued)
(expressed in U.S. dollars)

4.1 Operational Risk

The Company is exposed to the risk of direct or indirect loss resulting from internal processes, people or systems, or from external events. This includes cyber security risk, as well as major IT, systems or service failures. The Company has demonstrated continued resilience, underscoring the benefits of its business model, disciplined risk management and ongoing investment in technology and infrastructure. The Group and the Company has implemented several operational risk management processes, which include enhancing its defenses and response to information security and cyber threats. the Group and the Company regularly reassesses its information security standards and methodologies to ensure appropriate governance and consistency in its approach..In 2023, the Group also focused on Group-wide crisis management response planning, including conducting cyber crisis simulations to test and enhance its response plans. The Group has also established an Enterprise Portfolio Management (“EPM”) capability aimed at strengthening operational maturity and controls in relation to its change agenda over the next two to three years.

4.2 Insurance Risk

The predominant risk the Company is exposed to is insurance risk which is assumed through the underwriting process. Insurance risk can be sub-categorised into i) underwriting risk including the risk of catastrophe and systemic reinsurance losses and the reinsurance competition and cycle, and ii) reserving risk.

i) Underwriting risk

The Board sets the Company’s underwriting strategy and risk appetite seeking to exploit identified opportunities in light of other relevant anticipated market conditions. The Board requires the Company’s underwriters to operate within an overall Group appetite for individual events. This defines the maximum exposure that the Company is prepared to retain on its own account for any one potential catastrophe event or disaster.

Consistent with the Group, the Company’s overall underwriting risk appetite seeks to ensure that in a 1-in-200 bad year, it is within the underwriting risk limit. The limit is calibrated each year based on exposure, expected profit and the size of other correlated risks to enable the Company to continue in business and take advantage of market opportunities that arise.

Specific underwriting objectives such as aggregation limits, reinsurance protection thresholds and geographical disaster event risk exposures are prepared and reviewed by the Chief Underwriting Officer in order to translate the Board’s summarised underwriting strategy into specific measurable actions and targets. These actions and targets are reviewed and approved by the Board in advance of each underwriting year. The Board continually reviews its underwriting strategy throughout each underwriting year in light of the evolving market pricing and loss conditions and as opportunities present themselves. The underwriters and management consider underwriting risk at an individual contract level, and also from a portfolio

Hiscox Insurance Company (Bermuda) Limited
Notes to the Financial Statements (continued)
(expressed in U.S. dollars)

perspective where the risks assumed in similar classes of policies are aggregated and the exposure evaluated in light of historical portfolio experience and prospective factors.

To assist with the process of pricing and managing underwriting risk the Company routinely performs a wide range of activities including the following:

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

The delegation of underwriting authority to specific individuals is subject to regular review. All underwriting staff are set strict parameters in relation to the levels and types of business they can underwrite, based on individual levels of experience and competence. These parameters cover areas such as the maximum sums insured per insurance contract, maximum gross premiums written and maximum aggregated exposures per geographical zone and risk class. The Company compiles estimates of losses arising from extreme loss events using statistical models alongside input from its underwriters. These require significant management judgement. Disaster scenarios are hypothetical events selected to represent major events occurring in areas with large insured values. They also reflect the areas that represent significant exposures for the Company. In addition to understanding the loss the Company may suffer from an event, it is important to ensure that the risk models used are calibrated to the risks faced today. This includes updating trends in claims payments, and capturing climate change-related impacts. The Group has a climate risk framework, which is used to assess where research resources should be focused, and models updated, and as a result improves not only the Company's understanding of the potential impact of a changing climate but also the Company's ability to respond.

The selection of extreme loss scenario events is adjusted each year and they are not therefore necessarily directly comparable from one year to the next. The events are extreme and unprecedented, and as such these estimates may prove inadequate as a result of incorrect assumptions, model deficiencies, or losses from unmodelled risks. This means that should such an extreme loss event actually occur, the Company's final ultimate losses could materially differ from those estimates modelled by management. The Company's insurance contracts include provisions to contain losses, such as the ability to impose deductibles and demand reinstatement premiums in certain cases. In addition, in order to manage the Company's exposure to repeated catastrophic events (both man-made and natural catastrophes), relevant policies frequently contain payment limits to cap the maximum amount payable from these insured events over the contract period. In the case of climate-exposed risks specifically, the vast majority of contracts written by the Company are annual in nature and thus can be revised frequently. This flexibility is a key tool for managing the multi-decade challenge of climate risks holistically.

Hiscox Insurance Company (Bermuda) Limited
Notes to the Financial Statements (continued)
(expressed in U.S. dollars)

Underwriting risk is also managed by purchasing reinsurance. Reinsurance protection may be in the form of quota share reinsurance or excess of loss cover and is purchased at an entity level but is also considered at an overall Group level to mitigate the effect of catastrophes and unexpected concentrations of risk. However, the scope and type of reinsurance protection purchased may change depending on the extent and competitiveness of cover available in the market. Please refer to Note 7 for the liability for incurred coverage net of reinsurance.

The Company's property reinsurance inwards acceptances are primarily focused on large commercial property, homeowner and crop exposures held by other insurance companies predominantly in North America and other developed economies. This business is characterised more by large claims arising from individual events or catastrophes. Multiple insured losses can periodically arise out of a single natural or man-made occurrence. The main circumstances that result in claims against the reinsurance inwards book are conventional catastrophes, such as earthquakes or storms, and other events including fires, explosions, and cyber events. The occurrence and impact of these events are very difficult to model over the short term which complicates attempts to anticipate loss frequencies on an annual basis. In those years where there is a low incidence of severe catastrophes, loss experience on the reinsurance inwards book can be relatively low.

A significant proportion of the reinsurance inwards business provides cover on an excess of loss basis for individual events. The Company agrees to reimburse the cedant once their losses exceed a minimum level. Consequently, the frequency and severity of reinsurance inwards claims are related not only to the number of significant insured events that occur but also to their individual magnitude. If numerous catastrophes occurred in any one year, but the cedant's individual loss on each was below the minimum stated, then the Company would have no liability under such contracts. Maximum gross line sizes and aggregate exposures are set for each type of programme.

The Company writes reinsurance risks for periods of mainly one year so that contracts can be assessed for pricing and terms and adjusted to reflect any changes in market conditions and the evolving impact of climate change.

The Company also writes casualty reinsurance on a quota share basis from affiliates and the strategy attempts to ensure that the underwritten risks are well diversified in terms of type and amount of potential hazard, industry and geography. However, the Company's exposure is more focused towards professional, general and technological liability risks rather than human bodily injury risks, which are only accepted under limited circumstances. Claims typically arise from incidents such as errors and omissions attributed to the insured, professional negligence and specific losses suffered as a result of electronic or technological failure of software products and websites.

The provision of insurance to cover allegations made against individuals acting in the course of fiduciary or managerial responsibilities, including directors' and officers' insurance is one example of a casualty insurance risk.

The Company's casualty reinsurance contracts mainly experience low severity attritional losses. By nature, some of these losses may take longer to settle than the other categories of business. In addition, there is

Hiscox Insurance Company (Bermuda) Limited
Notes to the Financial Statements (continued)
(expressed in U.S. dollars)

increased potential for accumulation in casualty risk due to the growing complexity of business, technological advances, and greater interconnectivity and interdependency across the world due to globalisation. The pricing strategy for casualty insurance policies is typically based on historical claim frequencies and average claim severities, adjusted for inflation and extrapolated forwards to incorporate projected changes in claims patterns. In determining the price of each policy, an allowance is also made for acquisition and administration expenses, reinsurance costs, investment returns and the cost of capital.

The market for cyber insurance is still a relatively immature one, complicated by the fast-moving nature of the threat, as the world becomes more connected. The risks associated with cyber insurance are multiplying in both diversity and scale, with associated financial and reputational consequences of failing to prepare for them.

Please see below for the estimated concentration of insurance risks on inwards reinsurance, measured in insurance revenue:

	2023	2022
	(\$ in thousands)	
External inwards reinsurance	\$ 589,264	\$ 543,878
Internal inwards reinsurance	1,040,551	897,780
Total	\$ 1,629,815	\$ 1,441,658

ii) Reserving risk

The Company's procedures for estimating the outstanding costs of settling insured losses at the Statement of Financial Position date, including claims incurred but not yet reported, are detailed in Note 3.8.

The Company's provision estimates are subject to rigorous review by senior management from all areas of the business. The final provision is approved by the Board on the recommendation of the reserving committee.

The short-tailed property reinsurance claims are normally mostly notified and settled within 12 to 24 months of the insured event occurring. There is often a time lag between the establishment and re-estimate of case reserves and reporting to the Company. The Company works closely with the reinsured to ensure timely reporting and also centrally analyses industry loss data to verify the reported reserves.

Those claims taking the longest time to develop and settle typically relate to casualty risks where legal complexities occasionally develop regarding the insured's alleged omissions or negligence. The length of time required to obtain definitive legal judgments and make eventual settlements exposes the Company to a degree of reserving risk in an inflationary environment.

The final quantum for casualty claims may not be established for many years after the event. Consequently, a significant proportion of the casualty insurance amounts reserved on the Statement of Financial Position may not be expected to settle within 24 months of the Statement of Financial Position date. Our approach

Hiscox Insurance Company (Bermuda) Limited
Notes to the Financial Statements (continued)
(expressed in U.S. dollars)

is not to recognize the favorable experience in the early years of development in the reserving process when setting the best estimate.

The nature of reinsurance is such that, there is often a time lag between the establishment and re-estimate of case reserves and reporting to the Company. The Company works closely with the reinsured to ensure timely reporting and also centrally analyses industry loss data to verify the reported reserves.

For losses from Covid-19 as time passes and legal cases are gradually settled, the outcome becomes more certain and so the level of margin above the best estimate can be reduced.

4.3 Financial Risk

The Company is primarily exposed to financial risk through its ownership of financial instruments.. The Company invests in financial assets in order to fund obligations arising from its insurance contracts.

The key financial risk for the Company is that the proceeds from its financial assets and investment result generated thereon are not sufficient to fund the Company's obligations. The most important elements and economic variables that could result in such an outcome relate to the reliability of fair value measures, price risk, interest rate risk, credit risk, liquidity risk and currency risk. The Company's policies and procedures for managing exposure to these specific categories of risk are detailed below.

i) Reliability of fair values

The Company has elected to carry loans and receivables at amortised cost and all financial investments at FVPL as they are managed and evaluated on a fair value basis in accordance with a documented strategy. With the exception of unquoted investments shown in Note 12, all of the financial investments held by the Company are available to trade in markets and the Company therefore seeks to determine fair value by reference to published prices or as derived by pricing vendors using observable quotations in the most active financial markets in which the assets trade. The fair value of financial assets is measured primarily with reference to their closing market prices at the Statement of Financial Position date. The ability to obtain quoted market prices may be reduced in periods of diminished liquidity. In addition, those quoted prices that may be available may represent an unrealistic proportion of market holdings or individual trade sizes that could not be readily available to the Company. In such instances fair values may be determined or partially supplemented using other observable market inputs such as prices provided by market makers such as dealers and brokers, and prices achieved in the most recent regular transaction of identical or closely related instruments occurring before the Statement of Financial Position date but updated for relevant perceived changes in market conditions.

Valuation of these securities will continue to be impacted by external market factors including default rates, rating agency actions, and liquidity. The Company will make adjustments to the investment portfolio as appropriate as part of its overall portfolio strategy, but its ability to mitigate its risk by selling or hedging

Hiscox Insurance Company (Bermuda) Limited
Notes to the Financial Statements (continued)
(expressed in U.S. dollars)

its exposures may be limited by the market environment. The Company's future results may be impacted, both positively and negatively, by the valuation adjustments applied to these securities.

Note 8 provides an analysis of the measurement attributes of the Company's financial instruments.

ii) Price risk

The Company is exposed to price risk through its holdings of equity and investment funds. This is limited to a relatively small and controlled proportion of the overall investment portfolio and the equity and investment funds involved are diversified over a number of companies and industries. The fair value of equity and investment fund assets in the Statement of Financial Position at 31 December 2023 was \$68,911 (2022: \$96,910).

These may be analysed as follows:

Nature of equity and investment fund holdings	2023	2022
	(% weighting)	
Directly held equity securities	0%	0%
Equity funds	48%	65%
Hedge funds	52%	35%
Geographic focus		
Specific UK mandates	20%	14%
Global mandates	80%	86%

The allocation of price risk is not heavily confined to any one market index so as to reduce the Company's exposure to individual sensitivities. The Company makes an allocation to less volatile, absolute return strategies within its risk assets, so as to balance its desire to maximise returns with the need to ensure capital is available to support underwriting throughout any downturn in financial markets. A 10% downward correction in equity prices at 31 December 2023 would have been expected to reduce the Company's equity and profit after tax for the year by approximately \$6.9 million (2022: \$9.7 million) assuming that the only area impacted was equity financial assets. A 10% upward movement is estimated to have an equal but opposite effect.

iii) Interest rate risk

Fixed income investments represent a significant proportion of the Company's assets and the Board continually monitors investment strategy to minimise the risk of a fall in the portfolio's market value which could affect the amount of business that the Company is able to underwrite or its ability to settle claims as they fall due. The fair value of the Company's investment portfolio of debt and fixed income securities is normally inversely correlated to movements in market interest rates. If market interest rates rise, the fair value of the Company's debt and fixed income investments would tend to fall and vice versa if credit spreads remained constant. Debt and fixed income assets are predominantly invested in high-quality corporate, government and asset-backed bonds. The investments typically have relatively short durations

Hiscox Insurance Company (Bermuda) Limited
Notes to the Financial Statements (continued)
(expressed in U.S. dollars)

and terms to maturity. The portfolio is managed to minimise the impact of interest rate risk on anticipated Company cash flows.

The Company may also, from time to time, enter into interest rate future contracts in order to reduce interest rate risk on specific portfolios. The fair value of debt and fixed income assets in the Company's Statement of Financial Position at 31 December 2023 was \$1,624,915 (2022: \$1,532,698).

One method of assessing interest rate sensitivity is through the examination of duration-convexity factors in the underlying portfolio. Using a duration-convexity-based sensitivity analysis, if market interest rates had increased or decreased by 100 basis points at the Statement of Financial Position date, the Company equity and profit after tax for the year might have been expected to increase or decrease by approximately \$24.6 million (2022: \$22.8 million) assuming that the only Statement of Financial Position area affected was debt and fixed income financial assets. Duration is the weighted average length of time required for an instrument's cash flow stream to be recovered, where the weightings involved are based on the discounted present values of each cash flow. A closely related concept, modified duration, measures the sensitivity of the instrument's price to a change in its yield to maturity. Convexity measures the sensitivity of modified duration to changes in the yield to maturity. Using these three concepts, scenario modelling derives the above estimated impact on instruments' fair values for a 100-basis point change in the term structure of market interest rates.

The liability for incurred claims, reinsurance assets for incurred claims and certain reinsurance assets for remaining coverage are subject to discounting. Please refer to note 3.8 significant accounting estimates for further details regarding the discount rate used.

The Company has also recalculated the discounting impact for the reinsurance contract assets and insurance contract liabilities, to estimate that a movement in interest rates may affect the Company profit for the year as follows:

(\$ in thousands)	1% increase in interest rates impact on		1% decrease in interest rates impact on	
	2023 (Profit) or loss	2022 (Profit) or loss	2023 (Profit) or loss	2022 (Profit) or loss
Reinsurance contract assets	(\$7,839)	(\$13,601)	\$8,191	\$14,342
Insurance contract liabilities	24,009	28,546	(25,154)	(30,020)

iv) Credit risk

The Company has exposure to credit risk, which is the risk that a counterparty will suffer a deterioration in perceived financial strength or be unable to pay amounts in full when due, or that for any reason they renege on a contract or alter the terms of the agreement. The concentrations of credit risk exposures held by insurers may be expected to be greater than those associated with other industries, due to the specific nature of reinsurance markets and the extent of investments held in financial markets. In both markets, the Company interacts with a number of counterparties who are engaged in similar activities with similar customer

Hiscox Insurance Company (Bermuda) Limited
Notes to the Financial Statements (continued)
(expressed in U.S. dollars)

profiles, and often in the same geographical areas and industry sectors. Consequently, as many of these counterparties are themselves exposed to similar economic characteristics, one single localised or macroeconomic change could severely disrupt the ability of a significant number of counterparties to meet the Company's agreed contractual terms and obligations.

Key areas of exposure to credit risk include:

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

The Company's maximum exposure to credit risk is represented by the carrying values of financial assets and reinsurance assets included in the Statement of Financial Position at any given point in time. The Company does not use credit derivatives or other products to mitigate maximum credit risk exposures on reinsurance assets, but collateral may be requested to be held against these assets. The Company structures the levels of credit risk accepted by placing limits on its exposure to a single counterparty, or groups of counterparties, and having regard to geographical locations. Such risks are subject to an annual or more frequent review. There is no significant concentration of credit risk with respect to loans and receivables, as the Company has a large number of internationally dispersed debtors with unrelated operations. Retrocession is used to contain insurance risk. This does not, however, discharge the Company's liability as primary reinsurer. If a retrocessionaire fails to pay a claim for any reason, the Company remains liable for the payment to the reinsured. The creditworthiness of retrocessionaires is therefore continually reviewed throughout the year.

The Reinsurance Credit Committee ("RCC") assesses the creditworthiness of all reinsurers by reviewing credit grades provided by rating agencies and other publicly available financial information detailing their financial strength and performance as well as detailed analysis from the Group's internal credit analysis team. The financial analysis of retrocession partners produces an assessment categorised by factors including their S&P rating (or equivalent when not available from S&P).

While the rating agencies provide strong analysis on the financials and governance of a reinsurance security, the RCC also takes account of qualitative factors. The RCC considers the reputation of its reinsurance partners and also receives details of recent payment history and the status of any ongoing negotiations between Group companies and these third parties. The final score that a security receives will determine how much reinsurance credit risk Hiscox is willing to have with that security based on the exposure guidelines.

Despite the rigorous nature of this assessment exercise, and the resultant restricted range of counterparties with acceptable strength and credit credentials that emerges therefrom, some degree of credit risk concentration remains inevitable.

A credit risk exists should any of our retrocessionaires be unable to fulfill their contractual obligations with respect to the payment of reinsurance balances due to the Company. As at 31 December 2023, of the \$1,081 (2022: \$1,280) of AIC, approximately 21% (2022: 15%) or \$231m (2022: \$249m) are due from cedants

Hiscox Insurance Company (Bermuda) Limited
Notes to the Financial Statements (continued)
(expressed in U.S. dollars)

who are not required to provide collateral and are rated 'A' or above. Of the remaining 79% (2022: 81%) or \$850m (2022: \$1,031m) are collateralized by trusts for which we are the beneficiary.

As at 31 December 2023 of the Company's total Reinsurance Contract Assets of \$654m (2022: \$954m), \$482m (2022: \$713m) were due from Hiscox affiliates. External reinsurance contract assets of \$171m (2022: \$241m) have been evaluated and at 31 December 2023, the Company does not deem any of its reinsurance balances receivable as uncollectible.

The Company also maintains records of the payment history for significant brokers and contract holders with whom they conduct regular business. The exposure to individual counterparties is also managed by other mechanisms, such as the right of offset, where counterparties are both debtors and creditors of the Company, and obtaining collateral from unrated counterparties. Management information reports detail provisions for impairment on trade and other receivables and subsequent write-off. Exposures to individual intermediaries and groups of intermediaries are collected within the ongoing monitoring of the controls associated with regulatory solvency.

The Company also mitigates counterparty credit risk by concentrating debt and fixed income investments in high-quality instruments, including a particular emphasis on government bonds issued mainly by North American countries and the European Union. For the current and prior period, the Company did not experience any material defaults on debt securities.

An analysis of the Company's exposure to counterparty credit risk in its portfolio of fixed income holdings, based on S&P or equivalent rating is presented below.

	2023	2022
	(\$ in thousands)	
Government and government agencies		
U.S.	\$ 448,833	\$ 401,914
Non-U.S.	232,988	160,466
AAA	114,058	101,857
AA	35,121	48,566
A	308,913	367,300
BBB	353,408	325,563
Non-investment grade*	131,594	127,032
Total investments in fixed income holdings	<u>\$ 1,624,915</u>	<u>\$ 1,532,698</u>

* Fixed income holdings with a rating of below BBB

Within the fixed income holdings, which include debt securities, deposits with credit institutions, credit funds and cash equivalent assets, there are exposures to a range of government borrowers, on either a direct or guaranteed basis, and banking institutions. The Company, together with its investment managers, closely manages its geographical exposures across government issued and supported debt.

Hiscox Insurance Company (Bermuda) Limited
Notes to the Financial Statements (continued)
(expressed in U.S. dollars)

The largest aggregated counterparty exposure related to debt and fixed income holdings at 31 December 2023 of \$376 million is to the US Treasury (2022: \$349 million).

Of cash and cash equivalents, 9% (2022: 6%) are held at a U.S. financial institution rated A+ by Fitch Ratings, 13% (2022: 12%) at a Bermuda financial institution rated A+ by Standard & Poor's, 21% (2022: 15%) are held at U.K. Financial Institutions rated AA- by Standard & Poor's, 49% (2022: 67%) at a S&P AAA rated liquidity fund, 7% (2022: -) at a S&P A rated liquidity fund and 1% (2022: less than 1%) of cash and cash equivalents are held at a U.S. financial institution rated AA (2022: AA) by S&P. The Company's management evaluates the financial strength and stability of these institutions on a periodic basis. The Company's investment portfolio is managed by external investment managers in accordance with the Company's investment guidelines.

v) Liquidity Risk

The Company is exposed to daily calls on its available cash resources, mainly from claims arising from its reinsurance contracts. Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. The Board sets limits on the minimum level of cash and maturing funds available to meet such calls.

A significant proportion of the Company's investments are in highly liquid assets which could be converted to cash in a prompt fashion and at minimal expense. The Company's exposure to equities is concentrated on shares and funds that are traded on internationally recognised stock exchanges.

The main focus of the investment portfolio is on high-quality, short-duration debt and fixed income securities and cash. There are no significant holdings of investments with specific repricing dates. Notwithstanding the regular interest receipts and also the Company's ability to liquidate these securities and the majority of its other financial instrument assets for cash in a prompt and reasonable manner, the contractual maturity profile of the fair value of these securities at 31 December is disclosed in Note 6.

The available headroom of working capital is monitored through the use of a detailed Company cash flow forecast which is reviewed by management quarterly or more frequently as required.

The following is an analysis of the estimated timing of net cash outflows based on the undiscounted liability for incurred claims. The estimated phasing of settlement is based on current estimates and historical trends and the actual timing of future settlement cash flows may differ materially from the following:

	2023	2022 (restated)
	(\$ in thousands)	
Within one year	\$ 1,303,099	\$ 1,436,607
Between one and two years	743,208	816,254
Between two and five years	791,206	816,254
Over five years	223,533	195,901
Total Undiscounted LIC	\$ 3,061,046	\$ 3,265,016

Hiscox Insurance Company (Bermuda) Limited
Notes to the Financial Statements (continued)
(expressed in U.S. dollars)

vi) Currency risk

Currency risk is the risk of loss resulting from fluctuations in exchange rates. The Company's exposures to foreign exchange risk arise mainly with respect to the Pound Sterling, Euro and the Japanese Yen, which arises from the conversion of foreign currency transactions resulting from the activities of entering into reinsurance, investment and operational contracts in a currency that is different to its functional currency.

Operational foreign exchange risk is principally managed by broadly matching assets and liabilities by currency and liquidity. Due attention is paid to local regulatory solvency and risk-based capital requirements. Any foreign currency derivative transactions with external parties are managed centrally.

The currency profile of the Company's assets and liabilities is as follows:

2023

(\$ in thousands)	USD	GBP	EUR	Others	TOTAL
Cash and cash equivalents	\$ 215,327	77,873	106,641	61,372	\$ 461,213
Deferred tax asset	150,000				150,000
Financial assets at fair value	1,384,709	309,116	1	-	1,693,826
Reinsurance contract assets	638,601	(15,834)	36,856	(5,764)	653,859
Loans and receivables	99,161	12,832	16,230	243	128,466
Total Assets	\$2,487,798	313,897	159,728	55,851	\$3,087,364
Insurance contract liabilities	\$ 929,854	271,034	91,730	33,639	\$1,326,257
Trade and other payables	509,596	(137,197)	(363,678)	17,379	26,100
Total Liabilities	\$1,439,450	133,837	(271,948)	51,018	\$1,352,357

2022 (restated)

(\$ in thousands)	USD	GBP	EUR	Others	TOTAL
Cash and cash equivalents	\$ 242,516	67,165	128,549	46,447	\$ 484,677
Financial assets at fair value	1,335,593	294,015	1	-	1,629,609
Reinsurance contract assets	709,219	143,036	51,729	50,016	954,000
Loans and receivables	69,372	22,719	(7,004)	1,601	86,688
Total Assets	\$2,356,700	526,935	173,275	98,064	\$3,154,974
Insurance contract liabilities	\$1,040,573	423,974	189,603	110,916	\$1,765,066
Trade and other payables	288,802	(51,974)	(259,284)	41,241	18,785
Total Liabilities	\$1,329,375	372,000	(69,681)	152,157	\$1,783,851

Hiscox Insurance Company (Bermuda) Limited
Notes to the Financial Statements (continued)
(expressed in U.S. dollars)

Sensitivity analysis

As at 31 December 2023, the Company used closing rates of exchange of \$1: £0.78 and \$1: €0.91 (2022: \$1: £0.83 and \$1: €0.94).

The Company performs a sensitivity analysis based on a 10% strengthening or weakening of the US Dollar against Sterling. This analysis assumes that all other variables, in particular interest rates, remain constant and that the underlying valuation of assets and liabilities in their base currency is unchanged.

4.3 Capital Risk Management

The Company's primary objectives when managing its capital position are:

- to safeguard its ability to continue as a going concern
- to provide an adequate return to the Parent company by pricing its insurance products and services commensurately with the level of risk;
- to maintain an efficient cost of capital;
- to comply with all regulatory requirements by an appropriate margin;
- to maintain financial strength ratings of A in each of its insurance entities; and
- to settle policyholders' claims as they arise.

Additionally, the Company complies with all capital requirements set by its regulator, the Bermuda Monetary Authority ("the Authority"). Please refer to Note 16 for additional disclosures on statutory requirements.

The Company measures its capital requirements against its available capital. Available capital is defined by the Group as the total of net tangible asset value.

The Group Board ensures that the use and allocation of capital are given a primary focus in all significant operational actions. With that in mind, the Group has developed and embedded capital modelling tools within its business. These join together short-term and long-term business plans and link divisional aspirations with the Group's overall strategy.

The models provide the basis of the allocation of capital to different businesses and business lines, as well as the regulatory and rating agency capital processes.

5. Cash and cash equivalents

	2023	2022
	(\$ in thousands)	
Cash at bank	\$ 199,655	\$ 158,633
Short-term deposits	261,558	326,044
Total Cash and cash equivalents	\$ 461,213	\$ 484,677

Hiscox Insurance Company (Bermuda) Limited
Notes to the Financial Statements (continued)
(expressed in U.S. dollars)

Cash includes overnight deposits. Short-term deposits include debt securities with an original maturity date of less than three months and money market funds

6. Net investment and insurance finance result

The following table summarises the Company's net investment results:

	2023	2022 (restated)
	(\$ in thousands)	
Investment result:		
Investment income including interest receivable	\$ 88,643	\$ 35,574
Net realised (losses) on investments at FVPL	(8,505)	(16,391)
Net fair value gains/(losses) on investments at FVPL	36,371	(94,113)
Investment return-financial assets	116,509	(74,930)
Net fair value losses on derivative instruments	-	(2,332)
Total investment return	\$ 116,509	\$ (77,262)
Net finance (expense)/income from insurance contracts		
Interest accreted	\$ (102,174)	\$ (19,141)
Effects of changes in interest rates and other financial assumptions	1,077	108,734
Total net finance (expense) income from insurance contracts	\$ (101,097)	\$ 89,593
Net finance income/(expense) from reinsurance contracts:		
Interest accreted	\$ 28,146	\$ (5,854)
Effects of changes in interest rates and other financial assumptions	(1,954)	29,781
Total net finance income (expenses) from reinsurance contracts	\$ 26,192	\$ (23,927)
Net insurance finance income (expenses)	(74,905)	65,666
Net financial result	\$ 41,604	\$ (11,596)

Hiscox Insurance Company (Bermuda) Limited
Notes to the Financial Statements (continued)
(expressed in U.S. dollars)

7. Insurance liabilities & reinsurance contract held assets

	2023	2022 (Restated)
	(\$ in thousands)	
Insurance contract liabilities	\$1,326,257	\$1,765,066
Reinsurance contract held assets	(653,859)	(953,842)
Net insurance contract liabilities	672,398	811,066

Below is a reconciliation of the changes in insurance and reinsurance contract balances during the year:

Insurance contract liabilities

	Liability for remaining coverage		Liabilities for incurred claims		
31 December 2023 (\$ in thousands)	LRC excluding loss component	Loss component	Estimate s of present value of future cash flows	Risk adjustmen t for non- financial risk	Total
Opening assets	-	-	-	-	-
Opening liabilities	(1,289,786)	-	2,728,108	326,744	1,765,066
Net opening balance	(1,289,786)	-	2,728,108	326,744	1,765,066
Changes in the Statement of Income and Comprehensive Income					
Insurance revenue	(1,629,815)	-	-	-	(1,629,815)
Insurance service expenses					
Incurred claims and other insurance service expenses	-	-	197,648	269,526	467,174
Amortisation of insurance acquisition cash flows	61,198	-	-	-	61,198

Hiscox Insurance Company (Bermuda) Limited
Notes to the Financial Statements (continued)
(expressed in U.S. dollars)

Adjustments for LIC relating to past service	-	-	287,408	(102,511)	184,897
Losses and reversals of losses on onerous contracts	-	-	-	-	-
Total insurance service expenses	61,198	-	485,056	167,015	713,269
Insurance service result	(1,568,617)	-	485,056	167,015	(916,546)
Net finance income/expenses from insurance contracts	-	-	101,097	-	101,097
Foreign exchange movements	(6,652)	-	29,444	1,065	23,857
Total change in the Statement of Income and Comprehensive Income	(1,575,269)	-	615,597	168,080	(791,592)
Investment components	(2,428)	-	2,428	-	-
Transfer to other items in statement of financial position	33,212	-	(114,829)	(1,177)	(82,794)
Cash flows					
Premiums received, Net of Acquisition Costs	1,283,927	-	-	-	1,283,927
Claims and other insurance service expenses paid	-	-	(848,350)	-	(848,350)
Total cash flows	1,283,927	-	(848,350)	-	435,577
Closing assets					
Closing liabilities	(1,550,344)	-	2,382,954	493,647	1,326,257
Net closing balance	(1,550,344)	-	2,382,954	493,647	1,326,257

Hiscox Insurance Company (Bermuda) Limited
Notes to the Financial Statements (continued)
(expressed in U.S. dollars)

31 December 2022 (\$ in thousands)	Liability for remaining coverage		Liabilities for incurred claims		Total
	LRC excluding loss component	Loss component	Estimates of present value of future cash flows	Risk adjustment for non-financial risk	
Opening assets	-	-	-	-	-
Opening liabilities	(2,000,548)	-	3,523,413	363,447	1,886,312
Net opening balance	(2,000,548)	-	3,523,413	363,447	1,886,312
Changes in the Statement of Income and Comprehensive Income					
Insurance revenue	(1,441,658)	-	-	-	(1,441,658)
Insurance service expenses					
Incurred claims and other insurance service expenses	-	-	1,800,865	170,274	1,970,374
Amortisation of insurance acquisition cash flows	55,289	-	-	-	55,289
Adjustments for LIC relating to past service	-	-	(343,026)	(204,739)	(547,765)
Losses and reversals of losses on onerous contracts	-	-	-	-	-
Total insurance service expenses	55,289	-	1,457,839	(34,465)	1,478,603
Insurance service result	(1,386,369)	-	1,457,839	(34,465)	37,005
Net finance income/expenses from insurance contracts	-	-	(89,593)	-	(89,593)
Foreign exchange movements	16,620	-	(62,867)	(2,238)	(48,485)
Total change in the Statement of Income and Comprehensive Income	(1,369,749)	-	1,305,379	(36,703)	(101,073)
Investment components	683	-	(683)	-	-

Hiscox Insurance Company (Bermuda) Limited
Notes to the Financial Statements (continued)
(expressed in U.S. dollars)

Transfer to other items in statement of financial position	(341,859)	-	300,757	-	(41,102)
--	-----------	---	---------	---	----------

Cash flows

Premiums received, Net of Acquisition Costs	2,421,687	-	-	-	2,421,687
Claims and other insurance service expenses paid	-	-	(2,400,757)	-	(2,400,757)
Total cash flows	2,421,686	-	(2,400,757)	-	20,930

Closing assets

Closing liabilities	(1,289,786)	-	2,728,387	326,744	1,765,066
Net closing balance	(1,289,786)	-	2,728,108	326,744	1,765,066

Reinsurance contracts

31 December 2023 (\$in thousands)	Asset for remaining coverage		Asset for incurred claims		Total
	ARC excluding loss recovery component	Loss recovery component	Estimate s of present value of future cash flows	Risk adjustme nt for non-financial risk	
Opening assets	(325,829)	-	1,018,892	260,937	954,000
Opening liabilities	-	-	-	-	-
Net opening balance	(325,829)	-	1,018,892	260,937	954,000
Changes in the Statement of Income and Comprehensive Income					
Allocation of reinsurance premiums	(470,389)	-	-	-	(470,389)
Amounts recoverable from reinsurers					
Recoveries of incurred claims and other insurance service expenses	-	-	(278,013)	175,645	(102,368)

Hiscox Insurance Company (Bermuda) Limited
Notes to the Financial Statements (continued)
(expressed in U.S. dollars)

Adjustments to assets for incurred claims relating to past service	-	-	184,807	(79,713)	105,094
Effect of changes in non-performance risk of reinsurers	-	-	1,714	-	1,714
Total amounts recoverable from reinsurers	-	-	(91,492)	95,932	4,440
Net income/(expenses) from reinsurance contracts	(470,389)	-	(91,492)	95,932	(465,949)
Net finance income from reinsurance contracts	-	-	26,192	-	26,192
Foreign exchange movements	(1,113)	-	1,029	(2,533)	(2,617)
Total change in the Statement of Income and Comprehensive Income	(471,502)	-	(64,271)	93,399	(442,374)
Investment components	(16,371)	-	16,371	-	-
Transfer to other items in statement of financial position	-	-	(27,956)	(224)	(28,180)
Cash flows					
Premium paid	386,765	-	-	-	386,765
Amounts received	-	-	(216,352)	-	(216,352)
Total cash flows	386,765	-	(216,352)	-	170,413
Closing assets	(426,937)	-	726,684	354,112	653,859
Closing liabilities	-	-	-	-	-
Net closing balance	(426,937)	-	726,684	354,112	653,859

Hiscox Insurance Company (Bermuda) Limited
Notes to the Financial Statements (continued)
(expressed in U.S. dollars)

31 December 2022 (\$ in thousands)	ARC excluding loss recovery component	Loss reco very com pone nt	Estimates of present value of future cash flows	Risk adjustment for non-financial risk	Total
Opening assets	(124,100)	-	864,411	209,600	949,911
Opening liabilities	-	-	-	-	-
Net opening balance	(124,100)	-	864,411	209,600	949,911
Changes in the Statement of Income and Comprehensive Income					
Allocation of reinsurance premiums	(503,618)	-	-	-	(503,618)
Amounts recoverable from reinsurers					
Recoveries of incurred claims and other insurance service expenses	-	-	401,179	110,917	514,094
Adjustments to assets for incurred claims relating to past service	-	-	392,159	(134,300)	257,859
Effect of changes in non-performance risk of reinsurers	-	-	2,539	-	2,539
Total amounts recoverable from reinsurers	-	-	795,877	(23,383)	772,494
Net income/(expenses) from reinsurance contracts	(503,618)	-	795,877	(23,383)	268,876
Net finance income from reinsurance contracts	-	-	(23,927)	-	(23,927)
Foreign exchange movements	29,303	-	(547)	1,320	30,076
Total change in the Statement of Income and Comprehensive Income	(475,315)	-	771,403	(22,063)	275,025
Investment components	(12,108)	-	12,108	-	-
Transfer to other items in statement of financial position	-	-	-	-	-
Cash flows					

Hiscox Insurance Company (Bermuda) Limited
Notes to the Financial Statements (continued)
(expressed in U.S. dollars)

Premium paid	284,694	-	-	-	284,694
Amounts received	-	-	(629,030)	73,400	(555,630)
Total cash flows	284,694	-	(629,030)	73,400	(270,936)
Closing assets	(325,829)	-	1,018,892	260,937	954,000
Closing liabilities	-	-	-	-	-
Net closing balance	(325,829)	-	1,018,892	260,937	954,000

(b) Claims development tables

The development of reinsurance liabilities provides a measure of the Company's ability to estimate the ultimate value of claims. The Company analyses actual claims development compared with previous estimates on an accident year basis.

The top of each table illustrates how estimates of ultimate claim costs for each accident year have changed at successive year ends and the bottom reconciles the cumulative claim costs to the amounts still recognised as liabilities.

For incurred and paid accident year claims denominated in foreign currency, the Company has revalued using the current period end exchange rate

The Company has not disclosed previously unpublished information about claims developments that occurred earlier than 5 years before the end of the annual reporting period in which it first applies IFRS 17 i.e., 1 January 2023.

Hiscox Insurance Company (Bermuda) Limited
Notes to the Financial Statements (continued)
(expressed in U.S. dollars)

The following loss triangles are presented in thousands of U.S. dollars:

Gross Loss

**Insurance claims and claims expenses reserves -
GROSS**

Accident year	2019 \$000	2020 \$000	2021 \$000	2022 \$000	2023 \$000	Total \$000
Estimate of ultimate claims costs:						
at end of accident year	1,470,069	1,493,381	1,204,314	1,321,702	881,117	6,372,583
one year later	1,224,160	1,402,603	1,204,439	1,302,388		5,133,590
two years later	1,000,226	1,333,761	1,128,123			3,462,110
three years later	1,042,416	1,267,706				2,310,122
four years later	956,341					956,341
Current estimate of cumulative claims	956,341	1,267,706	1,128,123	1,302,388	881,117	5,535,675
Cumulative payments to date	(843,018)	(811,852)	(622,770)	(476,336)	(96,933)	(2,850,909)
Total Gross Reserves	113,323	455,854	505,353	826,052	784,184	2,684,766
Total Gross Reserves on prior accident years						376,280
Effect of discounting						(184,445)
Total Gross Reserves						2,876,601

Net Loss

**Insurance claims and claims expenses reserves -
NET**

Accident year	2019 \$000	2020 \$000	2021 \$000	2022 \$000	2023 \$000	Total \$000
Estimate of ultimate claims costs:						
at end of accident year	866,517	1,102,583	902,911	809,732	742,711	4,423,854
one year later	820,702	1,049,797	827,755	803,627		3,501,881
two years later	694,466	1,011,701	780,616			2,486,783
three years later	767,232	929,839				1,697,071
four years later	723,788					723,788
Current estimate of cumulative claims	723,788	929,839	780,616	803,627	742,711	3,980,581
Cumulative payments to date	(643,379)	(670,334)	(519,340)	(400,733)	(96,363)	(2,330,147)
Total Net Reserves	80,409	259,505	261,276	402,896	646,348	1,660,434
Total Net Reserves on prior accident years						293,452
Effect of discounting						(148,082)
Total Net Reserves						1,795,804

Hiscox Insurance Company (Bermuda) Limited
Notes to the Financial Statements (continued)
(expressed in U.S. dollars)

8. Fair value measurements

In accordance with IFRS 13 Fair Value Measurement, the fair value of financial instruments based on a three-level fair value hierarchy that reflects the significance of the inputs used in measuring the fair value, is set out below.

2023	Level 1	Level 2	Level 3	Total
	(\$ in thousands)			
Government and government agencies				
U.S.	\$ 376,117	\$ 72,716	\$ -	\$ 448,832
Non-U.S.	56,402	176,587	-	232,989
Corporate securities	21,233	745,860	-	767,093
Asset-backed securities	-	85,198	-	85,198
Mortgage-backed securities - residential	-	19,711	-	19,711
Mortgage-backed securities - commercial	-	10,458	-	10,458
Other investments	-	75,695	53,849	129,544
Total financial assets carried at fair value	\$ 453,752	\$ 1,186,225	\$ 53,849	\$ 1,693,826

2022	Level 1	Level 2	Level 3	Total
	(\$ in thousands)			
Government and government agencies				
U.S.	\$ 349,462	\$ 52,452	\$ -	\$ 401,914
Non-U.S.	46,940	113,526	-	160,466
Corporate securities	29,011	777,037	-	806,048
Asset-backed securities	-	45,957	-	45,957
Mortgage-backed securities - residential	-	22,429	-	22,429
Mortgage-backed securities - commercial	-	13,520	-	13,520
Derivative instruments	-	-	-	-
Other investments	-	159,483	19,791	179,274
Total financial assets carried at fair value	\$ 425,413	\$ 1,184,404	\$ 19,791	\$ 1,629,608

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

Hiscox Insurance Company (Bermuda) Limited
Notes to the Financial Statements (continued)
(expressed in U.S. dollars)

- 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.

Included within Level 1 of the fair value hierarchy are certain government bonds, treasury bills, long-term debt which are measured based on quoted prices in active markets.

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 services, investment managers and investment custodians as discussed above. The Company records the unadjusted price provided and validates the price through a number of methods including a comparison of the prices provided by the investment managers with the investment custodians and 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 Company 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 an investment in a limited partnership and a segregated portfolio company which have limited observable inputs on which to measure fair value. Fair value is determined to be net asset value for these investments. The effect of changing one or more inputs used in the measurement of fair value of this instrument to another reasonably possible assumption would not be significant.

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 Company'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. During 2023, two investment holdings were transferred from Level 2 to Level 3 of the fair value hierarchy.

Hiscox Insurance Company (Bermuda) Limited
Notes to the Financial Statements (continued)
(expressed in U.S. dollars)

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

	2023	2022
	(\$ in thousands)	
Balance at January 1	\$ 19,791	\$ 29,584
Fair value gains through profit or loss	3,050	(5,680)
Sales	(8,706)	(4,113)
Transfer into Level 3	59,325	-
Impairment	(19,611)	-
Balance at December 31	\$ 53,849	\$ 19,791

9. Loans and Receivables

Loans and receivables are comprised of:

	2023	2022
	(restated)	
	(\$ in thousands)	
Other debtors including related party	\$ 107,444	\$ 75,005
Receivables for investments sold	5,744	930
Accrued interest	15,278	10,753
Total	\$ 128,466	\$ 86,688

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

	2023	2022
	(restated)	
	(\$ in thousands)	
Within one year	\$ 128,466	\$ 86,688
After one year	-	-
Total loans and receivables	\$ 128,466	\$ 86,688

Hiscox Insurance Company (Bermuda) Limited
Notes to the Financial Statements (continued)
(expressed in U.S. dollars)

10. Trade and other payables

Trade and other payables are comprised of:

	2023	2022 (restated)
	(\$ in thousands)	
Deferred income	\$ 225	\$ 266
Payable for investments purchased	2,904	1,073
Other payables including related party	22,971	17,446
Total	<u>\$ 26,100</u>	<u>\$ 18,785</u>

The carrying amounts disclosed above are reasonably approximate to the fair value at the reporting date.

	2023	2022 (restated)
	(\$ in thousands)	
Within one year	\$ 26,100	\$ 18,785
After one year	-	-
Total trade and other payables	<u>\$ 26,100</u>	<u>\$ 18,785</u>

11. Taxation

Current Tax

Expense for the year
Adjustment in respect of prior years
Total Current Tax

	2023	2022
	(\$ in thousands)	
Expense for the year	\$ -	\$ -
Adjustment in respect of prior years	-	-
Total Current Tax	<u>\$ -</u>	<u>\$ -</u>

Deferred Tax

Expense/ (credit) for the year
Economic Transition Adjustment
Total Deferred Tax (credit)/expense

	2023	2022
	(\$ in thousands)	
Expense/ (credit) for the year	\$ -	\$ -
Economic Transition Adjustment	(150,000)	-
Total Deferred Tax (credit)/expense	<u>\$ (150,000)</u>	<u>\$ -</u>

Hiscox Insurance Company (Bermuda) Limited
Notes to the Financial Statements (continued)
(expressed in U.S. dollars)

The difference between the total current tax shown above and the amount calculated by applying the corporation tax rate applicable in Bermuda to the profit before tax is as follows:

	2023	2022
	(\$ in thousands)	
Profit before tax	\$ 489,347	\$ -
Tax calculated at the standard corporation tax rate applicable to Bermuda of 0% (2022: 0%)	-	-
Effects of Economic Transition Adjustment	(150,000)	-
Total Tax (credit)/charge	\$ (150,000)	\$ -
	2023	2022
	(\$ in thousands)	
Deferred Tax		
Deferred tax assets	\$ 150,000	\$ -
Deferred tax (liabilities)	-	-
Total net deferred tax asset/(liability)	\$ 150,000	\$ -
At 1 January:	\$ -	\$ -
Income statement credit/(expense)	150,000	-
Balance at 31 December	\$ 150,000	\$ -

In accordance with IAS 12, all deferred tax assets and liabilities are classified as non-current. The amount of deferred tax asset expected to be recovered after more than 12 months is \$150.0 million (2022: \$0 million).

Bermuda has introduced a corporate income tax ("CIT") which was substantively enacted at the statement of financial position date, and will apply at a rate of 15% to profits of certain Bermuda constituent entities with effect from 1 January 2025. The Company expects to be subject to Bermuda CIT. This will have a consequential effect on the Company's future tax charge. The impact of this change in future periods will be dependent on the level of taxable profits in those periods.

A deferred tax asset of \$150.0m in relation to the Economic Transition Adjustment ("ETA") required by this legislation has been recognised at the statement of financial position date. The ETA requires each taxable entity, which would also have been a taxpayer had the CIT been in effect at 30 September 2023, to adjust the calculation of taxable income on first entering the scope of tax, by replacing the carrying value of certain assets and liabilities on the statement of financial position at 30 September 2023 with the corresponding estimated fair value, creating temporary differences. The principal driver of this temporary difference is the customer relationships intangible asset which is subject to significant judgement and estimates, including forecast cashflows, the discount rate and capital allocation charges.

Hiscox Insurance Company (Bermuda) Limited
Notes to the Financial Statements (continued)
(expressed in U.S. dollars)

Factors affecting tax charges in future years

130 countries have agreed to implement a new global minimum tax ("GMT") as 'Pillar Two' of the OECD two-Pillar reform framework. The GMT uses adjusted consolidated accounting data to calculate the Effective Tax Rate ("ETR") paid on profits by a multinational in each jurisdiction in which it operates; and then applies a 'top-up tax' on any jurisdictions where the ETR is below 15%.

The Company is a subsidiary of the Hiscox Group ('the Group') which expects to be within the scope of these rules, by virtue of the fact that the Group's consolidated revenue in at least two of the four years prior to 2024 exceeded EUR750m. Multiple jurisdictions in which the Group operates have substantively enacted such legislation ("Pillar Two legislation") before the statement of financial position date. This legislation brings into effect the Income Inclusion Rule ("IIR") and Qualified Domestic Minimum Top-Up Tax ("QDMTT") from 2024, and the Undertaxed Profits Rule ("UPR") from 2025. The Company does not expect to be impacted by IIR and QDMTT legislation; nor, in light of the introduction of Bermuda CIT in 2025, does the company expect to be materially impacted by UPR.

12. Financial assets and liabilities

Financial assets designated at FVPL are measured at fair values, with all changes from one accounting period to the next being recorded through the Statement of Income and Comprehensive Income.

	2023	2022
	(\$ in thousands)	
Debt and fixed income holdings and funds	\$ 1,624,915	\$ 1,532,698
Equity investment funds	68,911	96,910
Total financial assets carried at fair value	<u>\$ 1,693,826</u>	<u>\$ 1,629,608</u>

The effective maturity of debt and fixed income holdings due within and after one year are as follows:

	2023	2022
	(\$ in thousands)	
Less than one year	\$ 571,613	\$ 471,997
Between one and two years	432,544	405,356
Between two and five years	432,225	520,427
Over five years	188,533	134,918
Total debt and fixed income holdings	<u>\$ 1,624,915</u>	<u>\$ 1,532,698</u>

The Company's equities and investment funds and other non-dated instruments have no contractual maturity terms but could also be liquidated in an orderly manner for cash in a prompt and reasonable time frame within one year of the Statement of Financial Position date.

Hiscox Insurance Company (Bermuda) Limited
Notes to the Financial Statements (continued)
(expressed in U.S. dollars)

Investments at 31 December are denominated in the following currencies at fair value:

	2023	2022
	(\$ in thousands)	
Debt and fixed income holdings		
US Dollars	\$ 1,315,798	\$ 1,258,601
Sterling	309,117	274,097
	<u>\$ 1,624,915</u>	<u>\$ 1,532,698</u>
Equities and investment funds		
US Dollars	\$ 68,911	\$ 76,992
Sterling	-	19,918
	<u>\$ 68,911</u>	<u>\$ 96,910</u>
Total investments	<u>\$ 1,693,826</u>	<u>\$ 1,629,608</u>

13. Related party transactions

The Company enters into reinsurance and retrocession agreements with affiliates. The financial statements include the following amounts which are attributable to reinsurance assumed and retrocession related party transactions:

	2023	2022
	(restated)	
	(\$ in thousands)	
Insurance revenue	\$ 1,040,551	\$ 897,799
Insurance service expense	(584,184)	(1,065,387)
Net finance income (expenses) from insurance contracts	(78,496)	69,710
Allocation of reinsurance premiums	(362,609)	(430,687)
Recoverable from reinsurers for incurred claims	40,418	884,660
Net finance income (expenses) from reinsurance contracts	20,817	(25,238)
Investment result	23,151	14,713
Insurance contract liabilities	459,143	706,828
Reinsurance contract assets	482,457	712,826

During 2023, the Company maintained assets in trust accounts to collateralise obligations under various related party reinsurance agreements. Cash and marketable securities with an approximate market value of \$1,041m (2022: \$495.5m) were held in trust in respect of internal quota share arrangements.

Reinsurance contract assets from related parties is primarily due from an ILS fund that is managed by an affiliate.

The Company entered into various service agreements with Hiscox Underwriting Group Services Limited ("HUGS") and Hiscox Services Ltd. ("HSL"). HUGS and HSL are wholly owned subsidiaries of Hiscox Ltd. The service agreements with HUGS cover group wide investment management services, claims and

Hiscox Insurance Company (Bermuda) Limited
Notes to the Financial Statements (continued)
(expressed in U.S. dollars)

legal services, human resources, IT, actuarial, accounting and other general corporate services, modeling services and outwards reinsurance administration services. The service agreements with HSL cover Bermuda general expenses as well as support services such as underwriting, modeling, outwards reinsurance administration, human resources, operations, claims and accounting services.

Transactions and balances with HUGS and HSL have been recorded in the financial statements as follows:

	2023	2022 (restated)
	(\$ in thousands)	
HUGS:		
Trade and other payables	\$ 7,630	\$ 1,642
Operational expense	(2,643)	-
Insurance service expense	(17,400)	(17,553)
Investment result	(153)	(396)
Other finance costs	(32)	-
HSL:		
Loans and receivables	\$ 13,622	\$ 21,163
Insurance service expense	(37,361)	(26,641)
Investment result	(2,217)	(2,071)
Operational expense	(719)	-
Other finance cost	(718)	-

Non-reinsurance related party balances with other Hiscox affiliates have been recorded in the financial statements as follows:

	2023	2022 (restated)
	(\$ in thousands)	
Loans and receivables	\$ 14,249	\$ 48,781
Trade and other payables	1,107	894
Other attributable expenses	209	369

The expense recognised during the year for the fair value of equity awards made to employees of the Company in the form of share options in the parent company, Hiscox Ltd, is \$5.3m (2022: \$2.6m).

Hiscox Insurance Company (Bermuda) Limited
Notes to the Financial Statements (continued)
(expressed in U.S. dollars)

14. Commitments and security arrangements

The letter of credit facilities held by the Company as at 31 December 2023 and 2022 are as follows:

	2023	2022
	(\$ in thousands)	
Citibank	\$ 125,000	\$ 125,000
Commerzbank	225,000	225,000
National Australia Bank	120,000	120,000
Total	\$ 470,000	\$ 470,000

Collectively, the secured facility agreements allow the Company to request the issuance of up to \$470.0m (2022: \$470.0m) in letters of credit. At 31 December 2023, \$207.0m (2022: \$189.4m) in letters of credit were issued under these facilities, collateralised by cash, U.S. government and corporate securities with a fair value of \$233.9m (2022: \$214.2m).

During 2023, the Company maintained assets in trust accounts to collateralise obligations under various reinsurance agreements. At 31 December 2023, \$558.1m (2022: \$504.3m) of marketable securities and \$13.4m (2022: \$14.3m) of cash were restricted as collateral within various Letter of Credit and trust accounts. The Company also provide assets under a Security and Trust Deed charged to Lloyd's of London, to meet any liabilities that occur from their interest in Syndicates 33 and 3624. At 31 December 2023, the Company held \$409.3m of investments (2022: \$553.5m), and \$96.7m of cash (2022: \$72.2m) in favour of Lloyd's of London under this arrangement.

Hiscox Plc, a company related by common control, has a letter of credit and revolving credit facility with Lloyds Banking Group, as agent for a syndicate of banks, which may be drawn in cash up to \$600.0m (2022: \$600.0m) under a revolving credit facility or LOC up to \$266.0m (2022: \$266.0m). In addition, the terms also provide that upon request the facility may be drawn in a currency other than US Dollars. At 31 December 2023, \$226.0m (2022: \$266.0m) was utilised by way of LOC to support the Funds at Lloyd's requirement and \$nil cash drawings were outstanding (2022: \$nil). The borrower for this letter of credit is initially responsible for repaying the banks for any amounts drawn. However, the facility is guaranteed by Hiscox Ltd and other affiliated companies, including the Company. This guarantee entitles the banks to pursue any of these entities for any sums due. In addition, the banks have share pledges over the shares of Hiscox Insurance Company Limited, an affiliate company, and the Company which can be called in the circumstance of a payment default.

15. Shareholder's equity

The items "common shares" and "contributed surplus" represent amounts paid or contributed by the Parent and retained earnings consist of accumulated reinvested net income generated by the Company. Any adjustment from a retrospective change in accounting policies affecting prior periods are recognised in the opening value of retained earnings in the Statement of Financial Position. For distribution restrictions, please refer to Note 13.

Hiscox Insurance Company (Bermuda) Limited
Notes to the Financial Statements (continued)
(expressed in U.S. dollars)

In February, April, October and December 2023, dividends of \$50m, \$100m, \$55m and \$70m respectively were declared and paid to Hiscox Ltd.

16. Statutory requirements

As a Class 4 insurer, the Company must at all times maintain a solvency margin and an enhanced capital requirement in accordance with the provisions of The Insurance Act 1978. Each year the Company is required to file with the Bermuda Monetary Authority (the “Authority”) a capital and solvency return within four months of its relevant financial year end (unless specifically extended).

The prescribed form of capital and solvency return comprises the insurer’s Bermuda Solvency Capital Requirement (“BSCR”) model, a schedule of fixed income investments by rating category, a schedule of net loss and loss expense provision by line of business, a schedule of premiums written by line of business, a schedule of risk management and a schedule of fixed income securities by security type. The BSCR includes a standardised model used to measure the risk associated with an insurer’s assets, liabilities and premiums, and a formula to take account of catastrophe risk exposure. The Authority has provided for the use of pre-approved internally developed company models in lieu of the standardised BSCR. The Authority requires all Class 4 insurers to maintain their capital at a target level which is 120% of the amount calculated in accordance with the BSCR or the company’s approved internal model (the Enhanced Capital Requirement or “ECR”). In addition, the Company is required to maintain a minimum solvency margin. Both requirements have been met.

Statutory capital and surplus at 31 December 2023, as determined using statutory accounting principles, was \$1,585m (2022: \$1,205.6m). At 31 December 2023, the Company’s minimum capital requirement was \$770m (2022: \$694.5m).

The Insurance Act 1978 also requires an insurer engaged in general business to maintain the value of its relevant assets at not less than 75% of the amount of its relevant liabilities. Relevant assets include cash and time deposits, quoted investments, unquoted bonds and debentures, first liens on real estate, investment income due and accrued, accounts and premiums receivable, reinsurance balances receivable and funds held by ceding reinsurers. There are certain categories of assets which, unless specifically permitted by the Authority, do not automatically qualify as relevant assets, such as unquoted equity securities, investments in and advances to affiliates and real estate and collateral loans. The relevant liabilities are total general business insurance reserves and total other liabilities less deferred income tax, sundry liabilities (by interpretation, those not specifically defined) and, letters of credit, guarantees and other instruments. The minimum liquidity ratio has been met.

The Company is prohibited from declaring or paying a dividend if its Class 4 statutory capital and surplus is less than its ECR, or if it is in breach of its solvency margin or minimum liquidity ratio, or if the declaration or payment of such dividend would cause such breach. Further, the Company, as a Class 4 insurer, is prohibited from declaring or paying in any year dividends of more than 25% of its total statutory capital and surplus as shown on its previous year’s statutory Statement of Financial Position unless it files (at least seven days before payment of such dividends) with the Authority an affidavit stating that it will

Hiscox Insurance Company (Bermuda) Limited
Notes to the Financial Statements (continued)
(expressed in U.S. dollars)

continue to meet its solvency margin and minimum liquidity ratio. As of 31 December 2023, the Company could pay dividends of \$396.3m (2022: \$323.6m) without providing an affidavit to the Authority.

The Company must obtain the Authority's prior approval for a reduction by 15% or more of the total statutory capital as set forth in its previous year's statutory financial statements. These restrictions on declaring or paying dividends and distributions under the Insurance Act are in addition to those under the Companies Act 1981, which apply to all Bermuda companies.

17. Subsequent events

Subsequent events have been evaluated up to and including 29 April 2024, being the date that these financial statements were available to be issued.

A dividend of \$290.0m to Hiscox Ltd. was declared on 6 February 2024 and was fully paid on 28 February 2024.

