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**Hardy (Underwriting Agencies) Limited:  
Syndicate 382  
2019 Annual Report and Financial Statements**

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## **Directors and administration**

### **Managing agent**

Hardy (Underwriting Agencies) Limited

### **Executive directors**

D J Brosnan  
P Hamer  
C A Kearney  
J Rehman  
D J Stevens  
A Williams

### **Non-executive directors**

J M Anderson (resigned 25 February 2020)  
A M D'Hulster  
H I Thomas  
R Thomson  
D Worman

### **Managing agent's registered office**

20 Fenchurch Street  
London EC3M 3BY

### **Managing agent's registered number**

1264271

### **Active underwriter**

C R Day

### **Bankers**

Citibank N.A.  
Barclays Bank plc

### **Investment managers**

Goldman Sachs Asset Management International

### **Registered auditor**

Deloitte LLP  
Statutory Auditor  
London, United Kingdom

### **Reporting actuaries**

KPMG Audit plc

## Strategic report

### Introduction

The directors of Hardy (Underwriting Agencies) Limited (“HUA”) present their strategic report for the year ended 31 December 2019. The audited financial statements are prepared in accordance with the Insurance Accounts Directive (Lloyd’s Syndicate and Aggregate Accounts) Regulation 2008 (“the Regulations”) and applicable Accounting Standards in the United Kingdom, including FRS 102 and FRS 103.

HUA is the managing agent for Syndicate 382 (“the Syndicate”) whose principal activity is underwriting general insurance and reinsurance business at Lloyd’s of London (“Lloyd’s”).

HUA is wholly owned by Hardy Underwriting Bermuda Limited (“HUB”) a Bermudian holding company. Hardy Underwriting Limited (“HUL”), another wholly owned subsidiary of HUB, is a corporate member of Lloyd’s and is the sole provider of underwriting capacity to Syndicate 382.

HUB is wholly owned by The Continental Corporation (“TCC”), a wholly owned subsidiary of CNA Financial Corporation (“CNAF”), which, in turn, is controlled by Loews Corporation (“Loews”). References to “CNA” in this report are to CNAF and its group undertakings.

CNA is the one of the largest commercial property and casualty insurance companies in the United States of America (“U.S.”). As of 31 December 2019, it has approximately 5,900 employees and its insurance products include commercial property and casualty coverages, including surety. CNA’s products and services are primarily marketed through independent agents, brokers and managing general underwriters to a wide variety of customers, including small, medium and large businesses, insurance companies, associations, professionals and other groups.

### Overview of results

The Syndicate reported a profit for 2019 of £10.9 million compared to a loss of £15.2 million in 2018. The calendar year combined ratio in 2019 was 98.9% (2018: 105.1%).

The Syndicate reported a reduction in gross written premiums of 15.1% for the year to £316.3 million compared to £372.6 million for 2018. The decrease was driven primarily by planned strategic exits from certain lines of business which have struggled to deliver consistent levels of profitability in recent years. These decisions support the Syndicate’s goal of generating long-term profitable growth.

Net written premiums in 2019 of £271.4 million decreased from the prior year of £321.3 million primarily as a result of the exit decisions previously noted, with the Syndicate’s reinsurance expenditure being proportionately lower as a result. The Syndicate regularly evaluates its reinsurance programme to ensure it is appropriate, given its overall risk appetite.

The Syndicate reported an underwriting profit for the year of £3.3 million compared to a loss of £16.5 million in 2018.

On a calendar year basis the net loss ratio of 62.1% represented a 5.7% improvement over the prior year ratio of 67.8%. This improvement was driven partly by a reduction in large losses that had emanated from the Property lines of business in the previous year. In addition, losses arising from catastrophes in 2019 were lower than the prior year when there were a number of significant events. The Syndicate recorded a relatively low level of prior year loss development in 2019.

The Syndicate shares its operating and management structure with other group companies, CNA Insurance Company Limited (“CICL”) and CNA Insurance Company (Europe) Limited (“CICE”). The Syndicate, CICL and CICE operate under a combined operating platform with management and administrative services being provided by a service company, CNA Services (UK) Limited (“CNA Services”), an indirect subsidiary of CNAF. The Syndicate pays CNA Services, which employs all UK staff, a management fee for the provision of management and administration services.

Syndicate operating expenses are made up of commissions paid to brokers and general administrative expenses. In addition, HUA charged the Syndicate a fixed fee of 0.075% of allocated underwriting capacity. Throughout 2019, all administrative expenses incurred in the UK were recharged from CNA Services. Expenses are allocated to the Syndicate from CNA Services based on a detailed allocation model which is regularly reviewed and updated.

## Strategic report - continued

### Overview of results - continued

The expense ratio for the year of 36.8% represented a decrease compared to the prior year ratio of 37.3%. This improvement is as a result of a continued focus on the rigorous management of the expense base and the impact of exiting certain lines of business in the previous financial year. The Syndicate's Singapore branch was placed into run-off at the end of 2018 and as result incurred a significantly reduced level of operating expenses in 2019.

The Syndicate continues to maintain a disciplined approach to expense management. Investments in new staff to support growth strategies have been made in 2019 in areas where the Syndicate believes appropriate levels of return will be made. The Syndicate continued to make further improvements to the technology that supports the underwriting and support functions.

Investment returns contributed £12.3 million (2018: £3.3 million) to the result in 2019 with the increase being driven primarily by movements in unrealised gains. The Syndicate invests in shorter duration, high quality fixed income government and corporate securities. The Syndicate's investment manager operates within investment guidelines and strategy determined by the Board of directors.

The Syndicate transacts insurance business in five main currencies (Pound sterling, Euro, US dollars, Canadian dollars and Japanese yen), and manages the currency mix of its assets to broadly match liabilities and mitigate the economic effects of exchange rate volatility. During the year the Syndicate recorded losses on foreign exchange of £4.6 million (2018: £1.8 million).

### Key performance indicators

The Syndicate uses a range of key performance indicators ("KPIs") to determine how well it is performing against its objectives and overall strategy. These indicators are regularly reviewed by the Syndicate's management team and measured against plan and prior year data.

The following KPIs are considered most relevant to measuring the Syndicate's performance in 2019.

	2019	2018
	£m	£m
Gross written premiums	<b>316.3</b>	372.6
Net written premiums	<b>271.4</b>	321.3
Profit/(loss) for the financial year	<b>10.9</b>	(15.2)
Loss ratio	<b>62.1%</b>	67.8%
Expense ratio	<b>36.8%</b>	37.3%
Combined ratio	<b>98.9%</b>	105.1%

## Strategic report - continued

### Financial position

#### Overview of financial position and capital requirements

For the 2017, 2018, 2019 and 2020 years of account, HUL provides 100% of the total underwriting capacity of £330.0 million for all years. This capacity is not expected to change for the 2020 Year of Account.

Capital to support the underwriting capacity for the Syndicate, known as Funds at Lloyd's ("FAL") is determined using HUA's Solvency II internal model, which operates under requirements prescribed by Lloyd's and the Solvency II regime. The capital required by HUL to support the Syndicate's underwriting capacity is 61.2% of Syndicate capacity (2018: 65.1%).

The FAL requirement is partly provided by CICL and by Continental Casualty Company ("CCC"), members of the CNA group. These arrangements have been approved by the relevant regulatory authorities, including the Prudential Regulation Authority ("PRA") and by Lloyd's, where relevant.

The following table sets out the composition of the assets supporting the Syndicate capital requirement for the 2019 year of account participation via HUL's FAL.

	2019 £'000	2018 £'000
Underwriting capacity	<b>330,000</b>	330,000
Capital requirement	<b>201,960</b>	214,830
Satisfied by:		
Investments	<b>112,825</b>	146,189
Assets deposited on behalf of HUL by CICL	<b>37,012</b>	65,748
Assets deposited on behalf of HUL by CCC	<b>113,362</b>	85,410
Solvency deficit adjustment	<b>(65,448)</b>	(83,733)
<b>Total Funds at Lloyd's provided</b>	<b>197,751</b>	213,614

The solvency deficit adjustment relates to the accumulated deficit arising from undistributed years of account.

#### Investments

To the extent possible, cash flows in excess of operational requirements were re-invested in the Syndicate's investment portfolio. The Syndicate has in place processes to monitor operating cash flows which ensure that investment returns are maximised whilst maintaining adequate cash resources to meet operating expense and claim requirements.

The Syndicate's investment guidelines are regularly reviewed and, as part of this process, the duration of the investment portfolio is managed to closely match the duration of the Syndicate's underlying liabilities. The Syndicate continues to invest primarily in high grade corporate and government bonds in accordance with its stated investment strategy.

## Strategic report - continued

### Business operations

The Syndicate operates primarily in the London market through its operations at Lloyd's.

Underwriting staff, management and most support functions are located in the managing agent's head office in London. Additional support services are provided from offices in the UK regions.

The Syndicate's strategy is to underwrite business with a focus on gross underwriting profit and to purchase reinsurance only where necessary to facilitate a meaningful line size or to protect against potential accumulations of exposure. The Syndicate maintains a list of approved reinsurers and these typically have a rating of A or above. Any deviation from this list requires formal assessment, approval and appropriate measures to mitigate exposure.

### Future developments

The Syndicate's core objectives are to be the provider of choice for its customers through the development of innovative products and to build sustainable long-term profitability.

At the end of 2018, targeted underwriting actions were taken by the Syndicate to improve overall levels of profitability. These actions included both reinsurance and underwriting actions. The Syndicate ceased underwriting property treaty, marine hull and construction all risk/erection all risk. The Syndicate also ceased underwriting business through its Singapore and Lloyd's China channels. Both actions resulted in reduced levels of net written premiums in 2019. These actions have the aim of improving overall levels of profitability in 2019 and beyond. The Syndicate will continue to closely manage and monitor its run-off portfolios.

Lloyd's of London established an insurance company in Brussels as a subsidiary of the corporation as of 1 January 2019. This company ensures that the Lloyd's market can continue to underwrite and pay claims in the European Union ("EU") after the United Kingdom ("UK") leaves the EU ("Brexit"). Lloyd's Brussels has an outsourcing agreement with each managing agent to delegate and undertake underwriting on its behalf. Only a relatively small amount of the Syndicate's premium is underwritten in the European Economic Area ("EEA") outside the UK. The impact to the Syndicate from Brexit will be minimal due to the limited exposure to EEA business and the utilisation of the Lloyd's Brussels subsidiary. During 2019 Lloyd's commenced a Part VII transfer of Brexit impacted policies for the whole Lloyd's market. The Syndicate is actively participating in this process.

### Corporate governance

Ultimate responsibility for the Syndicate's affairs rests with HUA's Board of directors. The Board is responsible for approving the Syndicate's business plan and its strategies with regard to risk management. The Board provides leadership based on a framework of controls and risk management disciplines and sets the Syndicate's risk appetite. The Board also seeks to ensure compliance with all relevant internal and external regulations governing the Syndicate's activities. The Board meets quarterly which consists of both CNA appointed directors and independent non-executive directors including an independent Chairman. As part of the Board meeting schedule, training is provided to members on their duties as directors.

The Board operates with three principal committees: an Audit Committee, a Risk Committee and an Underwriting Committee. Each committee has clear terms of reference for the matters for which it is responsible and reports to the Board. The Board, Audit Committee and Risk Committee are chaired by an independent non-executive director. The Underwriting Committee is chaired by the Chief Executive Officer. The corporate governance framework is reviewed and approved by the Board at least annually to ensure continued effectiveness.

The business underwritten by the Syndicate is authorised and regulated by the PRA and by Lloyd's and is regulated by the Financial Conduct Authority ("FCA"). The Syndicate works closely with Lloyd's to ensure it is compliant with all legal and regulatory requirements.

The Syndicate is committed to ensuring that its strategy, leadership, decision making and control framework are all central to the reasonable expectations of, and reflect the fair treatment of, its policyholders. The Syndicate continues to reassess all aspects of its commitment to its customers to ensure that all these values are maintained.



## Strategic report - continued

### Principal risks and uncertainties

The HUA Board has overall responsibility and accountability for risk management. The Syndicate's appetite for accepting and managing risk is defined by the Board. The Board has delegated to the Risk Committee the responsibility for identifying and assessing all material risks and reviewing the Syndicate's risk exposure against stated risk appetite on a regular basis.

The risk management framework includes the processes for identifying risks (including those emerging), an assessment of those risks, and the setting of tolerances for risks, as well as the modelling, monitoring and mitigation of risks. The scope of risks considered includes all internal and external risks that affect the Syndicate whether quantifiable or not.

Set out below are the principal risks and uncertainties to which the Syndicate is exposed. Further information on how the Syndicate manages risk is disclosed in note 3 to these financial statements.

#### Strategic risk

Strategic risk is the potential impact on earnings or capital from an incorrect strategy being set, improper business decisions, failure to execute plans or strategic ambitions, lack of responsiveness to industry changes and ill-disciplined growth in a soft market. Any event which would have an adverse impact to the Syndicate reputation would also rank as a strategic risk. Annual business plans are agreed by senior management and tracked against actual performance throughout the year.

#### Insurance risk

Insurance risk is the risk associated directly with the Syndicate's underwriting activities. This would include the risk associated with inaccurate or inadequate pricing of insurance policies, inappropriate or poorly controlled underwriting guidelines and authority limits, inadequate or inaccurate loss reserving, and unexpectedly high frequency or severity of claims experience.

To mitigate these risks the Syndicate has in place controls and governance processes designed to closely monitor its underwriting activities. These include, but are not limited to, the operation of the Underwriting Committee, Reserving Group and Exposure Management Group, the issuance of underwriting authority limits and guidelines, the extensive use of technical pricing models, and regular underwriting audits.

#### Financial risk – Credit, Market and Liquidity

Financial risk includes the risks associated with investment activities, credit, liquidity and foreign currency exchange. Investment risk includes the impact of market volatility on asset values associated with interest rate volatility. Other notable exposures are bond default risk (the risk that an issuer of a bond may be unable to make timely principal and interest payments) and reinsurer default risk (the risk that the Syndicate's reinsurers would be unable or unwilling to pay their share of reinsurer liabilities). Either may result in significant financial loss to the Syndicate.

The Syndicate manages investment risk through an Investment Group, responsible for establishing and maintaining an investment policy in line with the risk appetite of the Syndicate. In addition, the Group is responsible for the management of all investment asset risks, the selection of its investment manager and reviewing investment performance.

#### Operational risk

Operational risk arises from the risk of losses due to inadequate or failed internal processes, people, systems, service providers or from external events. Risks include those from IT related activities (including cyber), legal and regulatory, financial reporting and financial crime as well as those from operations, outsourcing and change.

The Syndicate has a well developed and tested business continuity plan and IT disaster recovery plan. There are appropriate business processes and relevant internal controls in place to substantially mitigate operational risk.

## Strategic report - continued

### Principal risks and uncertainties - continued

#### Emerging risks

The Syndicate has processes in place to monitor and manage new and emerging risks associated both directly with its insurance activities and with the wider business and economic environment. The Syndicate also monitors potential emerging risks resulting from changes in the regulatory environment. Where appropriate, the Syndicate proactively undertakes risk management activities to mitigate emerging risks.

#### Climate change

The Syndicate has reviewed and considered the requirements of the PRA supervisory statement SS3/19 with respect to managing the risks from climate change and is taking steps to incorporate and embed these requirements.

The Syndicate expects that climate change will be an area of increasing focus in the coming years. The perceived risks around climate change are great and should not be underestimated. The management team continue to consider the potential impact of climate change on the Syndicate. The Syndicate has implemented a number of changes within its business in order to act more responsibly including the appointment of a director responsible for climate related activities and reducing the use of single use products.

#### Going concern

The Syndicate has strong risk management disciplines across its operations. In particular, the potential impacts of external conditions are continually assessed and mitigating actions are taken where appropriate. The Syndicate operates with a broad range of brokers, customers and other business contacts in different product lines and geographic areas. As a consequence, the HUA directors believe that the Syndicate is well placed to manage its business risks successfully.

After making all relevant enquiries, the directors have a reasonable expectation that the Syndicate has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements. Further details regarding the adoption of the going concern basis can be found in the statement of accounting policies in note 1 to the financial statements.

#### Approval

Approved by the Board of directors and signed on its behalf by:

D J Brosnan  
Director  
20 Fenchurch Street,  
London EC3M 3BY  
5 March 2020

## Report of the directors of the managing agent

The directors of HUA, the managing agent of Syndicate 382, present their report and audited financial statements for the year ended 31 December 2019.

### Directors

The directors who have held office in HUA since 1 January 2019 and up to the date of signing are as follows:

#### Executive directors

D J Brosnan  
 P Hamer  
 C A Kearney  
 J Rehman  
 D J Stevens  
 A Williams

#### Non-executive directors

J M Anderson (resigned 25 February 2020)  
 A M D'Hulster  
 H I Thomas  
 R Thomson  
 D Worman

### Statement of managing agent's responsibilities

HUA is responsible for preparing the Syndicate annual financial statements in accordance with applicable law and UK Generally Accepted Accounting Practice.

The Regulations require HUA to prepare Syndicate annual financial statements as at 31 December each year to give a true and fair view of the state of affairs of the Syndicate as at that date and of its profit or loss for that year. In preparing the Syndicate annual financial statements, HUA is required to:

- select suitable accounting policies, which are applied consistently, subject to changes arising on the adoption of new accounting standards in the year;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the annual financial statements on the going concern basis unless it is inappropriate to presume that the Syndicate will continue in business.

The directors are responsible for keeping adequate accounting records which: disclose with reasonable accuracy at any time the financial position of the Syndicate; and enable it to ensure that the Syndicate annual financial statements comply with the Regulations. They are also responsible for safeguarding the assets of the Syndicate and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### Results

In 2019 the Syndicate reported a profit of £10.9 million (2018: loss of £15.2 million).

## Report of the directors of the managing agent - continued

### Auditor

Each of the persons who is a director at the date of approval of this report confirms that:

1. so far as the director is aware, there is no relevant audit information of which the Syndicate's auditor is unaware; and
2. the director has taken all the steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the Syndicate's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Deloitte LLP have expressed their willingness to continue in office as auditor of the Syndicate.

### Information included in strategic report

In accordance with section 414C(11) of the Companies Act, the Syndicate has chosen to set out the following information in the strategic report which would otherwise be required to be contained in the directors' report:

- information on the financial risk management objectives and policies;
- indication of the exposures to relevant key risks; and
- indication of likely future developments in the business of the Syndicate.

### Approval

Approved by the Board of directors and signed on its behalf by:

D J Brosnan  
Director  
20 Fenchurch Street,  
London EC3M 3BY  
5 March 2020

## Independent Auditor's report to the member of Syndicate 382

### Report on the audit of the Syndicate annual financial statements

#### Opinion

In our opinion the Syndicate annual financial statements of Syndicate 382 (the "Syndicate"):

- give a true and fair view of the state of the Syndicate's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

We have audited the Syndicate annual financial statements which comprise:

- the profit and loss account;
- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in member's balances;
- the cash flow statement;
- the related notes 1 to 17.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the Syndicate annual financial statements section of our report.

We are independent of the Syndicate in accordance with the ethical requirements that are relevant to our audit of the Syndicate annual financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the managing agent's use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the managing agent has not disclosed in the Syndicate annual financial statements any identified material uncertainties that may cast significant doubt about the Syndicate's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the Syndicate annual financial statements are authorised for issue.

We have nothing to report in respect of these matters.

## **Independent Auditor's report to the member of Syndicate 382 -**

continued

### **Other information**

The managing agent is responsible for the other information. The other information comprises the information included in the annual report, other than the Syndicate annual financial statements and our auditor's report thereon. Our opinion on the Syndicate annual financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the Syndicate annual financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Syndicate annual financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the Syndicate annual financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

### **Responsibilities of managing agent**

As explained more fully in the managing agent's responsibilities statement, the managing agent is responsible for the preparation of the Syndicate annual financial statements and for being satisfied that they give a true and fair view, and for such internal control as the managing agent determines is necessary to enable the preparation of Syndicate annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the Syndicate annual financial statements, the managing agent is responsible for assessing the Syndicate's ability to continue in operation, disclosing, as applicable, matters related to the Syndicate's ability to continue in operation and to use the going concern basis of accounting unless the managing agent intends to cease the Syndicate's operations, or has no realistic alternative but to do so.

### **Auditor's responsibilities for the audit of the Syndicate annual financial statements**

Our objectives are to obtain reasonable assurance about whether the Syndicate annual 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 (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Syndicate annual financial statements.

A further description of our responsibilities for the audit of the Syndicate annual financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

## Independent Auditor's report to the member of Syndicate 382 -

continued

### Report on other legal and regulatory requirements

Opinions on other matters prescribed by The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the managing agent's report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the managing agent's report /have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Syndicate and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the managing agent's report.

### Matters on which we are required to report by exception

Under The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 we are required to report in respect of the following matters if, in our opinion:

- the managing agent in respect of the Syndicate has not kept adequate accounting records; or
- the Syndicate annual financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

### Use of our report

This report is made solely to the Syndicate's members, as a body, in accordance with regulation 10 of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. Our audit work has been undertaken so that we might state to the Syndicate's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Syndicate's members as a body, for our audit work, for this report, or for the opinions we have formed.

Adam Ely ACA (Senior statutory auditor)

For and on behalf of Deloitte LLP  
Statutory Auditor  
London, United Kingdom  
5 March 2020

## Profit and loss account - Technical account - General business

	Notes	2019 £'000	2018 £'000
Gross written premiums	4	316,334	372,562
Outward reinsurance premiums		(44,940)	(51,218)
Premiums written, net of reinsurance		271,394	321,344
Change in provision for unearned premiums			
– gross amount		30,984	(2,013)
– reinsurers' share		(2,375)	2,853
Earned premiums, net of reinsurance		300,003	322,184
Claims paid			
– gross amount		217,628	196,095
– reinsurers' share		(29,940)	(31,234)
Net claims paid		187,688	164,861
Change in the provision for claims:			
– gross amount		(1,146)	52,129
– reinsurers' share		(364)	1,590
Claims incurred, net of reinsurance		186,178	218,580
Net operating expenses	6	110,546	120,153
<b>Balance on the technical account for general business</b>		<b>3,279</b>	<b>(16,549)</b>

The notes 1 to 17 form an integral part of these financial statements.



## Profit and loss account - Non-technical account

Notes	2019 £'000	2018 £'000
<b>Balance on the technical account for general business</b>	<b>3,279</b>	<b>(16,549)</b>
Income from investments	7,970	5,935
Gains on the realisation of investments	223	18
Losses on the realisation of investments	(1,018)	(1,379)
Unrealised gains on investments	2,420	178
Unrealised losses on investments	2,940	(1,247)
Investment expenses and charges	(198)	(173)
Foreign exchange differences	(4,637)	(1,845)
Other expenses	(93)	(93)
<b>Profit/(loss) for the financial year</b>	<b>10,886</b>	<b>(15,155)</b>

All the amounts above are in respect of continuing operations.

There are no recognised gains and losses in the year other than those dealt with in the technical and non-technical accounts and therefore a statement of total recognised gains or losses has not been prepared.

The notes 1 to 17 form an integral part of these financial statements.

## Statement of changes in member balances

Notes	2019 £'000	2018 £'000
<b>Balance at start of year</b>	<b>(77,665)</b>	<b>(69,872)</b>
<b>Total comprehensive loss for the year</b>		
Profit/(loss) for the financial year	10,886	(15,155)
	<b>(66,779)</b>	<b>(85,027)</b>
Transactions with member, recorded directly in member balances:		
- Receipt of distribution of closed year losses	11,156	7,358
- Other movements	-	4
<b>Balance at end of year</b>	<b>(55,623)</b>	<b>(77,665)</b>

The notes 1 to 17 form an integral part of these financial statements.

## Balance sheet

Assets	Notes	2019 £'000	2018 £'000
Investments - other financial investments	9	256,152	256,597
Reinsurers' share of provision for unearned premiums	13	19,347	22,003
Reinsurers' share of claims outstanding	13	123,860	127,143
Reinsurers' share of technical provisions		143,207	149,146
Debtors arising out of direct insurance operations	10	101,854	107,263
Debtors arising out of reinsurance operations		3,234	12,140
Other debtors	11	4,305	3,088
Debtors – amounts falling due within one year		109,393	122,491
Debtors arising out of direct insurance operations	10	8	72
Debtors arising out of reinsurance operations		-	1,113
Debtors – amounts falling due after one year		8	1,185
Cash at bank and in hand		26,767	39,416
Overseas deposits	12	45,131	37,863
Other assets		71,898	77,279
Accrued interest		1,411	1,328
Deferred acquisition costs		33,288	41,109
Prepayments and other accrued income		-	240
Prepayments and accrued income		34,699	42,677
<b>Total assets</b>		<b>615,357</b>	<b>649,375</b>

The notes 1 to 17 form an integral part of these financial statements.

**Balance sheet** - continued

Liabilities	Notes	2019 £'000	2018 £'000
Members balances		(55,623)	(77,665)
Provision for unearned premiums	13	141,921	176,817
Claims outstanding	13	482,119	493,738
Technical provisions		624,040	670,555
Creditors arising out of direct insurance operations		6,125	8,675
Creditors arising out of reinsurance operations		29,789	41,461
Other creditors	14	6,840	2,295
Creditors – amounts falling due within one year		42,754	52,431
Creditors arising out of direct insurance operations		-	-
Creditors arising out of reinsurance operations		851	-
Creditors – amounts falling after one year		851	-
Reinsurers' share of deferred acquisition costs		3,295	3,508
Accruals and deferred income		40	546
Other payables		3,335	4,054
<b>Total liabilities</b>		<b>615,357</b>	<b>649,375</b>

The notes 1 to 17 form an integral part of these financial statements.

These financial statements were approved by the Board of directors of HUA on 5 March 2020 and signed on its behalf by:

D J Stevens  
Director

## Statement of cash flows

### Reconciliation of operating profit to net cash outflows from operating activities

	2019 £'000	2018 £'000
<b>Operating activities</b>		
Profit/(loss) for the financial year	10,886	(15,155)
Adjustments for:		
Financial income	(12,337)	(3,332)
Change in fair value of financial investments	1,485	3,556
Effect of exchange rate changes on financial investments	8,701	(10,525)
Change in deferred acquisition costs	7,608	(4,145)
Change in reinsurance assets	5,939	(8,515)
Change in insurance liabilities	(46,515)	78,863
Change in other assets	7,164	(22,030)
Change in other liabilities	(9,332)	13,115
<b>Net cash flows from operating activities</b>	<b>(26,401)</b>	<b>31,832</b>
<b>Investing activities</b>		
Purchase of financial assets	(75,459)	(98,362)
Proceeds from sale of financial assets	70,591	77,347
Interest and dividends received	7,762	5,773
<b>Net cash flows used in investing activities</b>	<b>2,894</b>	<b>(15,242)</b>
<b>Net transfers to the member in respect of underwriting participations</b>	<b>11,156</b>	<b>7,362</b>
Net (decrease)/increase in cash and cash equivalents	(12,351)	23,952
Cash and cash equivalents at 1 January	39,416	15,762
Effect of foreign exchange rate fluctuations on cash and cash equivalents	(298)	(298)
<b>Cash and cash equivalents at 31 December</b>	<b>26,767</b>	<b>39,416</b>

The notes 1 to 17 form an integral part of these financial statements.

## Notes to the financial statements

### 1. Accounting policies

#### Basis of accounting

The financial statements are prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulation 2008 and applicable Accounting Standards in the UK, including FRS 102 and FRS 103. The financial statements are prepared under the historical cost accounting rules as modified by the revaluation of investments.

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year.

#### Basis of preparation

The Syndicate's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Business operations and Future development paragraphs, which form part of the Strategic report.

The directors have a reasonable expectation that the Syndicate and HUA have adequate resources to continue in operational existence for the foreseeable future. Therefore they continue to adopt the going concern basis of accounting in preparing the financial statements.

#### Foreign currencies

Foreign currency transactions are converted to the presentational and functional currency of the Syndicate (Pound sterling) using the prevailing exchange rate. Assets and liabilities denominated in foreign currency are revalued to functional currency at year end exchange rates. Income statement items denominated in foreign currency are booked using the prior month's closing rate. The resultant differences are recognised as foreign exchange differences in the technical account.

#### Basis of accounting for underwriting activities

Contracts are classified at inception, for accounting purposes, as either insurance contracts or investment contracts. A contract that is classified as an insurance contract remains an insurance contract until all rights and obligations are extinguished or expire. Investment contracts can be reclassified as insurance contracts after inception if insurance risk becomes significant.

Insurance contracts are those contracts that transfer significant insurance risk, if and only if, an insured event could cause an insurer to pay benefits that were significantly greater than the premium received. Such contracts may also transfer financial risk. Investment contracts are contracts that carry financial risk with no significant insurance risk. The Syndicate has not issued any investment contracts in the current or prior year.

#### Disclosure exemption

The Syndicate is included in the consolidated financial statements of CNAF, a company incorporated in the United States of America, whose consolidated financial statements are publicly available. Consequently, the Syndicate has, in compliance with FRS 102, therefore taken advantage of the disclosure exemptions available to it in relation to disclosing new standards and interpretations that have been issued but which are not yet effective.

#### Premiums

Premiums written comprise premiums on contracts incepted during the financial year as well as adjustments made to premiums written in prior accounting periods. Premiums written on a Losses Occurring During ("LOD") basis are recognised in the month of inception of the policy. Premiums written on a Risk Attaching During ("RAD") basis are spread between the inception and expiry date of the policy. Premiums are shown gross of brokerage payable and exclude UK taxes and duties levied on them. In addition, premiums are shown net of premium discounts and certain other deductions. Estimates are made for pipeline premiums, representing amounts due to the Syndicate not yet notified.

Outwards reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct inwards business.

The amount due but not paid is included in insurance and reinsurance debtors in the balance sheet.

## Notes to the financial statements - continued

### 1. Accounting policies - continued

#### Unearned premiums

Premiums written are recognised as earned according to the risk profile of the policy. Unearned premiums represent the proportion of premiums written in the year that relate to the unexpired period of policies in force at the balance sheet date, calculated on the basis of established earnings patterns or time apportionment as appropriate.

#### Claims incurred

Claims incurred comprise all claim payments and internal and external settlement expense payments made in the financial year and the movement in the provisions for claims outstanding and settlement expenses, including claims incurred but not reported ("IBNR"), net of salvage and subrogation recoveries.

Outward reinsurance recoveries are accounted for in the same accounting period as the claims for the related direct or inward reinsurance business being reinsured.

#### Claims outstanding and related reinsurance recoveries

Provision is made for undiscounted claims outstanding and settlement expenses incurred at the balance sheet date including an estimate for the cost of claims IBNR at that date. Included in the provision is an estimate of the internal and external costs of handling the claims outstanding. Estimated salvage and other recoveries are deducted from claims outstanding, if material.

The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Syndicate, where there is more available information about the claim event. In calculating IBNR, the Syndicate uses a variety of estimation techniques. These are largely based on actuarial analysis of historical experience, which assumes the development pattern of the current claims will be consistent with past experience. Allowance is made, however, for changes or uncertainties which may create distortions in the underlying statistics, or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims including:

- changes in Syndicate processes which might accelerate or slow down the development and/or recording of paid or incurred claims compared with the statistics from previous periods;
- changes in the legal environment;
- the effects of inflation;
- changes in the mix of business;
- the impact of large losses, including catastrophes; and
- movements in industry benchmarks.

Large claims are generally assessed separately by each business class, being measured on a case by case basis, to allow for the possible distortive impact of the development and incidence of the large claims.

When calculating the provision for claims outstanding, the Syndicate selects an estimation technique taking into account the individual characteristics of each business class.

Reinsurance recoveries are based upon the provision for claims outstanding, having due regard to collectability. Reinsurance recoveries in respect of estimated IBNR are assumed to be consistent with historical patterns of such recoveries, adjusted to reflect any changes in the nature and extent of the Syndicate's reinsurance programme over time. The recoverability of reinsurance is assessed having regard to market data on the financial strength of each reinsurer.

The Syndicate takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures and the directors therefore consider that its provisions for claims outstanding and related reinsurance recoveries are fairly stated. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established. Any adjustment made to amounts for claims provisions in respect of prior years is included in the Technical account within the financial statements of the period when such adjustment is made.

## Notes to the financial statements - continued

### 1. Accounting policies - continued

#### Deferred acquisition costs

Acquisition costs comprise the direct expenses of concluding insurance contracts written during the financial year. Acquisition costs are deferred and amortised over a period equivalent to that over which the underlying business is underwritten, and are charged to the accounting periods in which the related premiums are earned. Deferred acquisition costs represent the proportion of acquisition costs incurred in respect of unearned premiums at the balance sheet date. The Syndicate defers only those acquisition costs which are directly related to the conclusion of insurance contracts as calculated separately for each class of business.

#### Liability adequacy test

At each reporting date an assessment is made to determine whether recognised insurance liabilities are adequate. If that assessment shows that the carrying amount of insurance liabilities (less related acquisition costs) is inadequate in the light of estimated future cash flows, the entire deficiency is recognised in the profit and loss account as an impairment of any associated deferred acquisition costs and, where these are fully depleted, via the provision for unexpired risks. The adequacy of the provision for unexpired risks is calculated separately by reference to classes of business that are managed together, after taking into account relevant investment return.

#### Investment return

All investment return is recognised in the non-technical account.

Investment income comprises interest and dividends and realised gains and losses on investments. Interest is recognised on an accrual basis and dividends are included on an ex-dividend basis.

Realised gains or losses represent the difference between the net sales proceeds and purchase price.

Interest payable and expenses incurred in the management of investments are accounted for on an accrual basis.

Unrealised gains or losses represent the difference between the valuation of investments at the balance sheet date and their purchase price. The movement in unrealised gains and losses therefore includes the reversal of previously recognised unrealised gains and losses on investments disposed of in the current year.

#### Tax

Under Schedule 19 of the Finance Act 1993, managing agents are not required to deduct basic rate income tax from trading income. In addition, all UK basic rate income tax deducted from Syndicate investment income is recoverable by managing agents and consequently the distribution made to the member is gross of tax. Capital appreciation falls within trading income and is also distributed gross of tax.

No provision has been made for any United States Federal Income Tax payable on underwriting results or investment earnings. Any payments on account made by the syndicate during the year have been included in the balance sheet under the heading "other debtors".

No provision has been made for any other overseas tax payable by members on underwriting results.

#### Investments

The Syndicate designates financial assets upon initial recognition as "fair value through profit and loss" on the basis that the Syndicate manages and evaluates the performance of its investment portfolio on a fair value basis in accordance with its investment strategy.

These financial assets are initially recognised at fair value with any transaction costs being expensed through the profit and loss account. For quoted investments where there is an active market, the fair value is the quoted bid price at the balance sheet date. For quoted investments where there is no active market, the fair value is determined by reference to prices for similar assets in active markets.

Realised gains and losses and unrealised gains and losses arising from changes in the fair value of financial assets at fair value through profit and loss are included in the profit and loss account in the period in which they arise.

## Notes to the financial statements - continued

### 1. Accounting policies - continued

#### Cash and cash equivalents

Cash and cash equivalents represent cash balances, money market deposits with banks and other short-term highly liquid investments purchased within three months of maturity.

#### Insurance and other debtors

Insurance and other receivables are recognised at fair value less any provision for impairment. Any impairment of a receivable will be recognised if there is evidence that the syndicate will not be able to collect the amounts receivable according to the original terms of the receivable.

#### Other liabilities

Other liabilities, including payables arising from insurance contracts, creditors and deposits received from reinsurers, are initially measured at cost, which is equal to fair value, net of transaction costs.

### 2. Critical accounting estimates and judgements

The Syndicate makes judgements, estimates and assumptions that affect the reported amounts of assets and liabilities during the financial year. Estimates are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Estimates and judgements in applying accounting policies are regularly evaluated for appropriateness. Actual results may differ from these estimates.

#### Estimates

Estimates are regularly reviewed and any revisions to accounting estimates are recognised in the period in which the revision has occurred.

#### Outstanding claims provisions and related reinsurance recoveries

The Syndicate's estimates for reported and unreported losses and the resulting provisions and related reinsurance recoverables are continually monitored, and updated based on the latest available information. Adjustments resulting from updated reviews are reflected in the profit and loss account. The process relies upon the basic assumption that past experience, adjusted for the effect of current developments and likely trends, is an appropriate basis for predicting future events. Estimation of claims provisions is a complex process, however, and significant uncertainty exists as to the ultimate settlement of these liabilities.

The most critical gross estimate included within the Syndicate's balance sheet is the estimate for losses incurred but not reported ("IBNR") – both gross and reinsurers' share. This estimate is critical as it outlines the current liability for future expenses expected to be incurred in relation to claims and related recoveries from reinsurers. The total estimate as at 31 December 2019 is £220.2 million (2018: £205.2 million) and is included within technical provisions in the balance sheet. The estimate for reinsurers' share of IBNR is £68.4 million (2018: £56.5 million).

The Syndicate's estimate for unallocated loss adjustment expenses is based on an actuarial study at 31 December 2019 was £7.7 million (2018: 7.2 million).

#### Gross written premiums

Gross written premium is a key estimate for the Syndicate as it includes estimates for pipeline premiums together with adjustments to premiums written in prior accounting periods. Written premiums include pipeline premiums calculated using actuarial projection techniques on the key assumption that historical development is representative of future development. In the Syndicate, written premium is initially based on the estimated premium income ("EPI") of each contract, adjusted by actuarial projection techniques where appropriate. EPI is adjusted as the year of account matures. Premiums are earned on a straight-line basis over the life of each contract.

#### Fair value of assets and liabilities

In estimating the fair value of fixed income securities, fair values are generally based upon quoted market prices. This is discussed in notes 1 and 9.



## Notes to the financial statements - continued

### 2. Critical accounting estimates and judgements - continued

#### Judgements

Information about significant areas of critical judgements in applying accounting policies in the financial statements is described in note 1. The following accounting policies are considered to have a significant impact on the financial statements:

- Insurance contracts – assessment of the significance of insurance risk transferred to the Syndicate in determining whether a contract should be accounted for as an insurance contract
- Financial investments – fair value measurements classified as Level 1, 2 or 3 based on the degree to which fair value is observable (see note 9).

### 3. Risk management

The Syndicate operates an extensive risk management system to manage and monitor its risks within the overall governance framework set by the Board. The narrative below describes how the principal risks of the Syndicate are managed.

#### Risk definition

Risk exists as a consequence of uncertainty and is present in all activities regardless of their size or complexity. Risk is the uncertainty associated with the delivery of the Syndicate's objectives, resulting in either a positive or negative outcome.

The Syndicate faces numerous risks to its business from both internal and external sources. These risks have the potential to impact the achievement of the Syndicate's strategic and operational objectives. Successful risk management enables the Board to understand and manage the uncertainty, and associated risk and opportunity, to which the Syndicate is exposed.

#### Risk statement

The Syndicate considers risk management to be fundamental to good management practice and a significant aspect of corporate governance. Effective management of risk provides an essential contribution towards the achievement of the Syndicate's strategic and operational objectives and goals.

The Board of HUA owns risk management within the Syndicate, and communicates its risk strategy through a risk appetite statement. The Board is also responsible for ensuring that the Syndicate's Internal Model is embedded in the operation of its business and that the model is used to improve both the understanding of risk and the quality of the decision making at all levels across the business.

Risk management is an integral part of the Syndicate's decision-making and routine management, and is incorporated within the strategic and operational planning processes at all levels across the business. Employees are expected to manage risk as defined through their roles. This ensures that an assessment of risk remains central to decision-making.

The Risk Management Function maintains a governance framework and a risk register to support the assessment of risk within the business. This includes investigation and challenge around issues and events which may affect the Syndicate's understanding or management of risk.

Risk assessments are conducted on new ventures and activities, including projects, processes, systems and commercial activities to ensure that these are aligned with the Syndicate's objectives and goals. Any risks or opportunities arising from these assessments are identified, analysed and reported to the appropriate management level.

## Notes to the financial statements - continued

### 3. Risk management - continued

#### Risk Appetite

The Syndicate's risk appetite statement reflects the Company's risk profile, business strategy and financial goals. It describes the level and types of risk the Company is prepared to bear.

Syndicate level risk appetite is set by the Board at a level that is most appropriate in the context of the Syndicate's strategy and capital constraints. The risk appetite statement sets out the types and overall amount of risk which is acceptable to achieve the business strategy. Risk appetite is an expression of the need to both limit exposure to unacceptable risks and to assume risks for which the Syndicate is well positioned to make returns from managing risk effectively.

The strategic appetite statements provide high level guidance under:

- Capital;
- Liquidity;
- Earnings; and
- Reputation.

Detailed appetite statements provide further guidance on the levels of risk acceptable in the various risk categories. The detailed appetite statements follow the risk register categorisation and hence provide the limits (for risks which can be controlled) and escalation points (for risks which can only be monitored) for each risk type.

#### Own Risk and Solvency Assessment ("ORSA")

The ORSA is a process for the Syndicate to identify and assess all material risks that may impact the Syndicate's ability to meet, over the full business planning period, its strategic objectives and obligations and to ensure sufficient capital is maintained, on a continuing basis, to meet these risks.

Assessments are forward-looking, taking into account the business plan, long term plan and projections. The assessment is performed regularly and without any delay following any significant change in the risk profile, with the outcome of the assessment informing strategic decisions.

There are seven distinct categories of risk segmented into four high level categories: Insurance risks (Underwriting and Reserving), Finance risks (Credit, Market and Liquidity), Operational risks and Strategic risks. The key mitigation activities against these risk categories are described below

The Syndicate operates an extensive risk management system to manage and monitor its risks within the overall governance framework set by the Board. The notes below describe how the principal risks of the Syndicate are managed.

#### Business review of risk and the 'three lines of defence' governance model

The Syndicate deploys the three lines of defence governance model. In the first line, risk is managed and monitored by those that have a responsibility for risk taking or decision making. Second line monitoring occurs through the Risk and Compliance functions and the Risk Committee, and is evidenced through risk reporting. Third line monitoring is through Internal Audit, supported by external audit and independent experts.

The primary method for identifying, assessing and managing risk in the Syndicate is through the first line of defence review of risk taking and/or decision making activity. Employees are expected to manage risk as defined by their role. A formal risk review takes place at least quarterly where the risk and control performance and relevance are considered. Indicators and appetites may be refreshed more regularly and will prompt ad-hoc reviews where they fall outside agreed tolerances.

The risk register is central to the management of risk at the Syndicate. The Risk Management Function works with risk owners to agree the material risks to which the Syndicate is exposed, as well as the relevant sub-risks, controls and key risk indicators against each risk. The suite of risks on the register makes up the universe of risks within the Syndicate.

## Notes to the financial statements - continued

### 3. Risk management - continued

#### Emerging and developing risk

Emerging risks are defined as conditions, situations or trends that could impact the financial strength, competitive position or reputation of the Syndicate, within a defined future timescale, and for which probability of occurrence and extent of impact are in the process of being understood and quantified.

To differentiate emerging risks from material risks that are already tracked, emerging risks are those where:

- the likelihood and impact may not be fully quantifiable; and/or
- the business is monitoring the risk, but is not able to actively manage it.

Emerging and developing risks are related to potential changes in the environment, or in the understanding of the environment, which could positively or negatively impact the Syndicate's ability to meet its short or longer term plans.

The purpose of actively researching and discussing developing risk as a business is to be able to identify and benefit from new opportunities ahead of the Syndicate's peers, and to avoid or mitigate potential threats to the Syndicate's business performance.

#### Risk quantification and modelling

The Internal Model is the tool used to calculate the Syndicate's Solvency Capital Requirement. The Syndicate's Internal Model provides a tool to quantitatively assess the material risks to which the Syndicate is exposed. The Internal Model encompasses the processes and methodologies in place for quantifying the risks faced by the Syndicate as well as the data, assumptions, applied expert judgements, model outputs and the systems of governance and independent validation. All model changes must go through a formal approval process.

#### Capital management

The capital position is managed to take account of the Syndicate's long term needs and particularly of the underwriting cycle, since the variability of the Syndicate's exposures at different points in the cycle is critical. The Board's strategy is to ensure capital adequacy in accordance with commercial and regulatory requirements.

The Syndicate's corporate member is required to hold capital at Lloyd's which is held in trust in FAL. The amount of capital required to be provided as FAL for the 2019 Year of Account was determined by the Syndicate and Lloyd's on a Solvency II basis, using an Internal Model. This is a risk-based capital assessment based upon the Syndicate's specific circumstances.

The Syndicate's regulatory capital required for the 2020 year of account is £202.0 million (2019 year of account: £214.8 million). This capital requirement was increased by £65.4 million (2018: increased by £83.7 million of solvency deficits). This requirement is fulfilled by investments held by HUL and by £150.4 million (2018: £151.2 million) of investments provided by CICL and CCC to support the Syndicate's capital requirement.

#### Insurance risk

Insurance risk is the assumption of risk by an insurer from the individuals or organisations who are directly subject to the risk concerned.

There are inherent uncertainties in assuming insurance risk, some of which relate to the scope of coverage and the understanding of that scope by the insurer. The principal uncertainty, however, is associated with frequency and severity of claims and with the potential for these to be greater than expected. Insurance events are subject to fortuity and are therefore, by their very nature, random as to number and size.

Insurers put in place strategies to manage insurance uncertainties and the framework utilised by the Syndicate is outlined below.

## Notes to the financial statements - continued

### 3. Risk management - continued

#### Underwriting risk

Underwriting risk represents risk associated with the continuing acceptance of insurance policies by the Syndicate. This relates to the uncertainty as to whether premiums received will be sufficient to cover future incurred losses, including expenses as well as risks associated with potential volatility in claims experience.

Processes used to manage underwriting risk include the setting of underwriting and pricing standards and limits on risk-taking. The Syndicate also monitors and manages its natural catastrophe exposures and uses catastrophe modelling software in order to assess its risk. Where necessary, reinsurance is used to mitigate and transfer risk falling outside risk appetite. Additionally the Syndicate employs a business model that achieves diversification through the spread of business across territories and sectors. The Underwriting Group is responsible for the management of underwriting risk, reporting to the Board.

#### Control of aggregating exposures

Measurement and control of exposures are the means by which volatility within the portfolio is constrained. It goes to the heart of the business' appetite for risk, since exposures are contained at a level that represents the extent to which the Syndicate is prepared to bear a net loss. Within an insurance business, aggregations of risk may arise from a single insurance contract or through a number of related contracts. Whilst some level of claims activity from these aggregations is expected on a regular basis, certain events, or a series of events, may occur that stress the business financially. Examples of such events are hurricanes and earthquakes. The extent of the impact may also be very dependent on the size and location of the insured events.

Control of aggregating exposures in vulnerable locations is clearly vital, and is the key to maximising the potential for good underwriting profit in loss free periods without, on the downside, over-exposing capital to the impact of large and costly events. Factors which would impact the assumption of risk in these circumstances include an appropriate pricing of risk, a spread of risk across geographical territories and the availability, subject to cost, of a suitable reinsurance programme. The Syndicate determines the maximum total exposure levels to a range of events that it is prepared to accept. Beyond this level, no further exposure may be assumed. At any point in time, the current exposure position for the underwriting portfolio is available to underwriters to enable them to assess the impact of individual risk exposures on the whole account.

The Syndicate uses a number of modelling tools for this purpose, and their main objective is to simulate catastrophe and other losses so as to measure the effectiveness of the reinsurance programme and to confirm that Syndicate's net exposure has not exceeded the predetermined limit. A number of stress and scenario tests are also run during the year to examine the exposure to specific types of events.

#### Management of reinsurance risk

Treaty reinsurance is purchased to proactively manage the volatility inherent in the business. The Syndicate seeks to balance cost versus protection through outward reinsurance treaty protections.

In addition to protecting the business against catastrophe exposure, reinsurance is also purchased to lay off risks that have characteristics that the Syndicate does not wish to retain and also to control net exposures on single risks or aggregations of risks. Both proportional and non-proportional reinsurances are employed. Facultative reinsurance may also be used in certain predetermined circumstances for individual large lines. The focus on adequacy of pricing generally means that the underwriting team is comfortable to underwrite most classes of business without significant levels of facultative reinsurance.

The erosion and ongoing adequacy of the reinsurance programme, as well as the reinsurance credit risk, are also actively monitored.

## Notes to the financial statements - continued

### 3. Risk management - continued

#### Reserve risk

Reserve risk is associated with liabilities the Syndicate has from insurance policies issued in the past. This is the risk that claims reserves and related claims handling reserves will be materially inadequate relative to the ultimate cost of settlement.

The Syndicate adopts a prudent philosophy and approach in quantifying the Syndicate's insurance liabilities. Under this philosophy the Syndicate seeks to provide an appropriate level of confidence in the level of insurance liabilities, through estimating individual case reserves and the ultimate estimation of the ultimate cost of claims.

The Claims department is responsible for the setting of individual case reserves. The primary source of information for claims is through the London Market Bureau (Xchanging). Information is also received directly from customers and brokers, which is used to complement the official advice of claims through the Bureau.

Due to the nature of insurance business there will be a time delay between the occurrence of an event, the reporting of that event to the insurer, assessing the quantum of the loss, and final settlement. A provision for IBNR is established to provide for the future notification or development of claims which have already occurred at each balance sheet date. The Syndicate uses a number of methodologies in estimating the provision for IBNR claims, which are highly dependent on the assumptions used. These methodologies and assumptions will vary by class of business, underwriting year and method of acceptance.

Critical to the reserve setting process is the assumption that the past claims development experience can be used to predict the future claims development and hence the ultimate cost of claims. Triangulation statistics that show the historical development of premiums and claims for each class of business and underwriting year are used to assist in the process of determining reserves. Numerous other factors and assumptions are applied to the claims historical progression data to assist in setting these estimates. The factors include changes over time to the business mix and method of acceptance within each class of business, rating and conditions, legislation and court awards, claims inflation and economic conditions. By its nature, the process involves a significant amount of judgement, although every effort is made to ensure that the process and resultant reserves are set on a consistent basis and will be sufficient to meet the cost of claims when they are finally settled.

There is a significant amount of uncertainty in the reserve established, which may be more or less than adequate. The level of uncertainty varies between classes of business and generally increases for longer tail classes of business. Any change in the estimate of a reserve, or a settlement at a value other than the reserve provided, is recognised in the reporting period in which the change is identified. Given the significant uncertainty in the best estimate reserve established, the booked reserve also includes an additional management margin for prudence. This margin increases the probability that the booked claim reserves will prove adequate. The margin amount is set by the Board and reflects both the degree of uncertainty around the actuarial best estimate and the reserve risk appetite of the Syndicate.

The following table quantifies the impact on the Syndicate's profit and net assets of a 1% variation in the outstanding claims reserve and combined ratio, which may be the result of one or several changes in the insurance risk variables.

	Gross of reinsurance	Net of reinsurance	Gross of reinsurance	Net of reinsurance
	2019	2019	2018	2018
	£'000	£'000	£'000	£'000
Impact of a 1% variance in:				
Claims liability	4,821	3,583	4,937	3,666
Combined ratio	3,473	3,000	3,705	3,222
Impact on net assets of a 1% variance in:				
Claims liability	4,821	3,583	4,937	3,666
Combined ratio	3,473	3,000	3,705	3,222

## Notes to the financial statements - continued

### 3. Risk management - continued

#### Financial risk

Financial risks can be broken down into the following categories:

#### Credit risk

Credit risk is the risk of loss if a counterparty fails to meet its contractual obligations resulting in a financial loss to the Syndicate. The Syndicate is exposed to credit risk primarily through its investment and insurance activities.

The exposure to credit risk from holdings of debt and other fixed income securities, is managed by adherence to the Syndicate's investment guidelines which detail minimum issuer credit quality, duration limits, and the maximum value of individual holdings. The average Standard & Poor's ("S&P") credit rating of the Syndicate's debt and other fixed income securities remained high throughout the year, and at 31 December 2019 was "A" (2018: "A").

The Syndicate is exposed to credit risk as a result of its regular insurance and reinsurance activity. The areas of key exposure are the reinsurers' share of claims outstanding and debtors arising out of direct and reinsurance operations from both policyholders and intermediaries. Ceded reinsurance is used to mitigate risks arising from inwards business. Ceded reinsurance does not discharge the Syndicate's liability as primary insurer. If a ceded reinsurer fails to pay a claim, the Syndicate remains liable for the payment to the policyholder. Reinsurance coverages are normally placed with reinsurers who are included on the approved reinsurance security listing used by the Syndicate. Generally, these reinsurers will have an S&P credit rating of "A" or better. With regard to direct insurance and reinsurance receivables, the Syndicate operates processes to review broker security and to monitor arrangements with managing general agents. Receivables consist of payments of premium due from a large number of policyholders, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable.

The Syndicate does not have a significant credit risk exposure to any single external counterparty or any group of counterparties. The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

The assets bearing credit risk are summarised below:

	2019	2018
	£'000	£'000
Other financial investments	256,152	256,597
Reinsurers' share of claims outstanding	123,860	127,143
Debtors arising out of direct insurance operations	101,862	107,335
Cash at bank and in hand	26,767	39,416
Overseas deposits	45,131	37,863
Debtors arising out of reinsurance operations	3,234	13,253
Other debtors	4,305	3,088
<b>Total assets bearing credit risk</b>	<b>561,311</b>	<b>584,695</b>

The concentration of credit risk is substantially unchanged compared to the prior year.

The carrying amount of the above assets at the balance sheet date represents the maximum credit risk exposure. At year end, the Syndicate does not hold any investments in wrapped debt or other such fixed income securities.

## Notes to the financial statements - continued

### 3. Risk management - continued

#### Credit risk - continued

Other financial investments are designated as fair value through profit or loss at inception, and their performance is evaluated on a fair value basis, in accordance with a documented investment strategy. The credit rating for other financial investments is detailed below. The ratings are derived from S&P.

	2019 £'000	2018 £'000
AAA	19,354	17,014
AA	63,154	71,035
A	122,441	115,126
BBB	39,579	43,827
Below BBB or not rated	11,624	9,595
<b>Total other financial investments bearing credit risk</b>	<b>256,152</b>	<b>256,597</b>

Other financial investments and cash at bank are neither past due nor impaired.

The S&P or equivalent credit rating for reinsurers' share of claims outstanding and debtors arising out of reinsurance operations is detailed below:

	2019 £'000	2018 £'000
AA	10,626	43,206
A	111,478	95,524
BBB	1,280	47
Below BBB or not rated	3,710	1,619
<b>Total reinsurers' share of claims outstanding and debtors arising out of reinsurance operations bearing credit risk</b>	<b>127,094</b>	<b>140,396</b>

Debtors arising out of direct and reinsurance operations includes a £0.4 million (2018: £0.3 million) provision for impairment.

## Notes to the financial statements - continued

### 3. Risk management - continued

#### Liquidity risk

Liquidity risk is the risk that cash may not be available, or that assets cannot be liquidated at a reasonable price, to pay obligations when they fall due. The Syndicate is exposed to daily calls on its available cash resources mainly from claims arising through insurance and reinsurance contracts. In respect of business underwritten in certain international regions there is a requirement to collateralise regulated trust funds in respect of gross insurance liabilities. This puts an additional burden on the Syndicate's liquidity.

The table below summarises the maturity profile of the Syndicate's financial and insurance liabilities based on an analysis by estimated timing of the amounts recognised in the balance sheet for insurance liabilities, and based on remaining undiscounted contractual obligations for all other liabilities.

	Within 1 year £'000	1-2 years £'000	3-5 years £'000	Over 5 years £'000	Total £'000
Claims outstanding	268,638	119,153	88,415	5,913	482,119
Creditors	42,754	851	-	-	43,605
Other payables	3,335	-	-	-	3,335
<b>As at 31 December 2019</b>	<b>314,727</b>	<b>120,004</b>	<b>88,415</b>	<b>5,913</b>	<b>529,059</b>

	Within 1 year £'000	1-2 years £'000	3-5 years £'000	Over 5 years £'000	Total £'000
Claims outstanding	202,418	218,177	58,524	14,619	493,738
Creditors	52,431	-	-	-	52,431
Other payables	4,054	-	-	-	4,054
<b>As at 31 December 2018</b>	<b>258,903</b>	<b>218,177</b>	<b>58,524</b>	<b>14,619</b>	<b>550,223</b>



## Notes to the financial statements - continued

### 3. Risk management - continued

#### Liquidity risk – continued

The table below summarises the maturity profile of the Syndicate's financial and insurance assets where the maturity profile is an analysis by estimated timing of the amounts recognised in the balance sheet.

	Within 1 year £'000	1-2 years £'000	3-5 years £'000	Over 5 years £'000	Total £'000
Other financial investments	102,587	112,252	35,543	5,770	256,152
Reinsurers' share of claims outstanding	69,016	30,611	22,714	1,519	123,860
Debtors	109,393	8	-	-	109,401
Cash at bank and in hand and overseas deposits	71,898	-	-	-	71,898
Prepayments and accrued income	34,699	-	-	-	34,699
<b>As at 31 December 2019</b>	<b>387,593</b>	<b>142,871</b>	<b>58,257</b>	<b>7,289</b>	<b>596,010</b>

	Within 1 year £'000	1-2 years £'000	3-5 years £'000	Over 5 years £'000	Total £'000
Other financial investments	76,688	131,843	45,435	2,631	256,597
Reinsurers' share of claims outstanding	52,124	56,183	15,071	3,765	127,143
Debtors	122,491	1,185	-	-	123,676
Cash at bank and in hand and overseas deposits	77,279	-	-	-	77,279
Prepayments and accrued income	42,677	-	-	-	42,677
<b>As at 31 December 2018</b>	<b>371,259</b>	<b>189,211</b>	<b>60,506</b>	<b>6,396</b>	<b>627,372</b>

The Syndicate manages this risk by structuring its working capital to ensure that there are available cash resources or sufficiently liquid investments to meet expected cash flow requirements. The Syndicate's investment guidelines are structured to ensure that Syndicate investments can be liquidated at short notice to meet higher levels of demand in exceptional circumstances.

The Syndicate has no significant concentrations of liabilities that would result in a concentrated cash outflow or any significant concentration of assets that may result in restrictions in liquidating at short notice.

Liquid funds and cash flow forecasts are monitored regularly to ensure that the need for sufficient liquidity is balanced against investment return objectives.

## Notes to the financial statements - continued

### 3. Risk management - continued

#### Market risk

Market risks are principally related to the Syndicate's investment activity, notably its holding of debt and other fixed income investments. Within this area, the primary risks to which the Syndicate is exposed are: currency risk and interest rate risk.

The Syndicate manages these exposures through its Investment Group. The Group is responsible for establishing and maintaining an investment policy in line with the risk appetite of the Syndicate. In addition, the Group is responsible for the management of all investment asset risks, the selection of its investment manager and reviewing investment performance.

The investment management function is outsourced to an external fund manager.

The Investment Group has established an asset allocation policy of investing primarily in listed debt, other fixed income securities and cash. The policy also stipulates that surplus cash can only be held on deposit with highly rated credit institutions until such time as suitable investments in appropriate listed debt and other fixed income securities can be made.

An investment management agreement has been established with the Syndicate's external fund manager. The agreement includes specific guidelines for each individual portfolio in order to limit risks arising from duration, currency, liquidity, credit and concentration exposures. The agreement also limits concentration of exposures to single countries, economic sectors and individual securities and provides for minimum standards of creditworthiness. The external fund manager provides quarterly affirmation of compliance with these guidelines.

#### Market risk - currency risk

The Syndicate transacts insurance business in the five main Lloyd's settlement currencies (Pound sterling, Euro, US dollars, Canadian dollars and Japanese yen). Assets are held in each of these currencies to generally match the corresponding liabilities.

The Syndicate is exposed to movements in foreign exchange where there is a mismatch between assets and liabilities in any of these currencies. When a mismatch occurs the Syndicate looks to limit this mismatch exposure through foreign currency transactions subject to regulatory funding requirements.

## Notes to the financial statements - continued

### 3. Risk management - continued

#### Market risk - currency risk - continued

The following tables summarise the sterling equivalent net carrying value of financial instruments and monetary insurance balances by currency at 31 December:

	Sterling equivalent			Total
	US Dollars	Euros	Sterling and other	
	2019	2019	2019	
	£'000	£'000	£'000	£'000
Other financial investments	191,446	22,057	42,649	256,152
Reinsurers' share of claims outstanding	54,493	5,581	63,786	123,860
Debtors, accrued interest and prepayments and accrued income	71,384	6,449	32,128	109,961
Cash at bank and in hand and overseas deposits	6,823	8,146	56,929	71,898
Net deferred acquisition costs	17,360	2,233	10,400	29,993
Claims outstanding	(279,052)	(35,902)	(167,165)	(482,119)
Creditors	(26,414)	(871)	(15,509)	(42,794)
Net provision for unearned premiums	(70,946)	(9,128)	(42,500)	(122,574)
<b>Net exposure</b>	<b>(34,906)</b>	<b>(1,435)</b>	<b>(19,282)</b>	<b>(55,623)</b>

	Sterling equivalent			Total
	US Dollars	Euros	Sterling and other	
	2018	2018	2018	
	£'000	£'000	£'000	£'000
Other financial investments	201,588	23,124	31,885	256,597
Reinsurers' share of claims outstanding	63,226	5,714	58,203	127,143
Debtors, accrued interest and prepayments and accrued income	93,813	8,128	23,303	125,244
Cash at bank and in hand and overseas deposits	13,583	6,282	57,414	77,279
Net deferred acquisition costs	24,143	2,550	10,908	37,601
Claims outstanding	(263,637)	(27,909)	(202,192)	(493,738)
Creditors	(44,803)	(1,405)	(6,769)	(52,977)
Net provision for unearned premiums	(104,115)	(9,948)	(40,751)	(154,814)
<b>Net exposure</b>	<b>(16,202)</b>	<b>6,536</b>	<b>(67,999)</b>	<b>(77,665)</b>

Whilst the matching of liabilities with assets within the above currencies reduces economic exposure to currency risk, it does not prevent exchange gains and losses from being recognised in the profit and loss account. A 10% strengthening of sterling against the following currencies at 31 December 2019 would have increased/(decreased) the Syndicate's profits by the amounts shown below. This analysis assumes no hedging of currency and that all other variables remain constant.

## Notes to the financial statements - continued

### 3. Risk management - continued

#### Market risk - currency risk - continued

	Net assets		Profit before tax	
	2019	2018	2019	2018
	£'000	£'000	£'000	£'000
US Dollars	3,491	1,620	3,491	1,620
Euros	144	(654)	144	(654)

A 10% weakening of sterling against the above currencies at 31 December 2019 would have had an equal but opposite effect to the amounts shown above, on the basis that all other variables remain constant.

#### Market risk - interest rate risk

At 31 December 2019 the Syndicate's exposure to interest rate risk is primarily through its investments in debt and other fixed income securities due to instrument duration. The investment portfolio is managed based on the characteristics of the underlying liabilities and the alignment of the duration of the investment portfolio to the duration of the liabilities.

The actual durations measured in years for the fixed income portfolios were:

<b>Euro</b>	<b>2019</b>	<b>2018</b>
	%	%
0 to 1 years	23%	15%
1 to 2 years	26%	29%
over 2 years	51%	56%
<b>Total</b>	<b>100%</b>	<b>100%</b>
Average duration in years	2.43	2.45
<b>US Dollar</b>	<b>2019</b>	<b>2018</b>
	%	%
0 to 1 years	25%	14%
1 to 2 years	30%	36%
over 2 years	45%	50%
<b>Total</b>	<b>100%</b>	<b>100%</b>
Average duration in years	1.98	2.14

## Notes to the financial statements - continued

### 3. Risk management - continued

#### Market risk – interest rate risk - continued

Canadian Dollar	2019 %	2018 %
0 to 1 years	19%	0%
1 to 2 years	48%	83%
over 2 years	33%	17%
<b>Total</b>	<b>100%</b>	<b>100%</b>
Average duration in years	1.74	1.70

The investment portfolio is periodically analysed for changes in duration and related price change risk. The evaluation is performed by applying an instantaneous change in yield rates of varying magnitude on a static balance sheet to determine the effect such a change in rates would have on the fair value at risk and the resulting effect on net assets.

To illustrate the downside risk within the debt and other fixed income securities portfolio, the impact of an increase of 100 basis points in interest yields across all portfolios simultaneously has been estimated. The Syndicate does not hedge interest rate risk and, assuming this continues and that all other variables remain constant, such an increase would decrease the market value of the investment portfolio and lead to a decrease in the total investment return of £3.8 million (2018: £4.1 million).

On the basis that all other variables remain constant, a decrease of 100 basis points in interest rates at 31 December 2019 would have had an equal and opposite effect to the amounts shown above.

#### Operational risk

The Syndicate is exposed to operational risks associated with internal processes, people, systems, service providers or from external events. These exposures are analysed, monitored and managed. The Syndicate has a well developed and tested business continuity plan and has IT disaster recovery plans. HUA arranges Corporate Insurances to help protect against financial loss. The operational risk management framework also includes an operational loss reporting facility to record incidents and near-misses from operational events.

#### Strategic and group risk

The risk universe of all group operations is covered by a risk register in place to ensure risk can be managed and monitored at the local level as well as Syndicate and group.

Group risk is the risk that the Syndicate's business units fail to consider the impact of their activities on other parts of the group, as well as the risks arising from their activities. The primary areas of focus in respect of group risk are:

## Notes to the financial statements - continued

### 3. Risk management - continued

#### Capital & Solvency

A risk-based approach is used to determine the amount of capital required to support the activities of the Group. Recognised stochastic modelling techniques are used to measure risk exposures, and capital to support business activities is allocated according to risk profile. Stress and scenario analysis is performed and the results are reviewed against Board risk appetite.

#### Reputation

Negative publicity as a result of the Group's contractual arrangements, customers, products, services and other activities could impact upon our brand and our ability to deliver against our business plan and interact as needed with the capital markets. The Syndicate aims to minimise reputational risks, but where reputational risk arises, it would be contained by prompt management of public communications.

#### Shared services

The Syndicate has reliance on certain group services, such as financial systems. Any issues in these services will manifest as group risk. These outsourced service risks are monitored and assessed at both the local and group level.

## Notes to the financial statements - continued

### 4. Segmental Information

An analysis of the underwriting result before investment return is set out below, using segmental classes as prescribed by Lloyd's.

For the year ended 31 December 2019:

	Gross written premiums £'000	Gross premiums earned £'000	Gross claims incurred £'000	Net operating expenses £'000	Reinsurance balance £'000
<b>Direct insurance</b>					
Accident and health	(62)	(106)	(6)	(7)	6
Marine, aviation and transport	10,478	14,223	(8,285)	(5,211)	639
Energy-Marine and Non Marine	11,324	10,987	(4,717)	(3,006)	(1,494)
Fire and other damage to property	88,379	96,806	(68,299)	(29,877)	(4,177)
Third party liability	58,683	62,491	(33,868)	(21,890)	(2,185)
Pecuniary loss	1,660	8,957	(7,180)	(1,920)	1,273
<b>Total direct</b>	<b>170,462</b>	<b>193,358</b>	<b>(122,355)</b>	<b>(61,911)</b>	<b>(5,938)</b>
<b>Assumed reinsurance</b>	<b>145,872</b>	<b>153,960</b>	<b>(94,127)</b>	<b>(48,635)</b>	<b>(11,073)</b>
<b>Total</b>	<b>316,334</b>	<b>347,318</b>	<b>(216,482)</b>	<b>(110,546)</b>	<b>(17,011)</b>

For the year ended 31 December 2018:

	Gross written premiums £'000	Gross premiums earned £'000	Gross claims incurred £'000	Net operating expenses £'000	Reinsurance balance £'000
<b>Direct insurance</b>					
Accident and health	(269)	(252)	(1,469)	87	208
Marine, aviation and transport	21,458	23,905	(22,188)	(6,920)	(470)
Energy-Marine and Non Marine	13,228	10,749	(3,183)	(4,266)	(1,023)
Fire and other damage to property	101,636	98,949	(90,787)	(32,779)	(2,073)
Third party liability	76,946	68,732	(29,706)	(24,815)	(5,423)
Pecuniary loss	7,307	17,784	(13,360)	(2,356)	(725)
<b>Total direct</b>	<b>220,306</b>	<b>219,867</b>	<b>(160,693)</b>	<b>(71,049)</b>	<b>(9,506)</b>
<b>Assumed reinsurance</b>	<b>152,256</b>	<b>150,682</b>	<b>(87,531)</b>	<b>(49,104)</b>	<b>(9,215)</b>
<b>Total</b>	<b>372,562</b>	<b>370,549</b>	<b>(248,224)</b>	<b>(120,153)</b>	<b>(18,721)</b>

## Notes to the financial statements - continued

### 4. Segmental Information - continued

Geographical regions

Gross written premiums by location of risk:

	2019 £'000	2018 £'000
UK	9,655	16,511
Other European Union member states	8,309	21,372
United States of America	53,695	60,089
Worldwide	244,675	274,590
<b>Gross premiums written</b>	<b>316,334</b>	<b>372,562</b>

### 5. Claims incurred

Under provisions for claims at the beginning of the year as compared with net payments and provisions at the end of the year in respect of prior years' claims are as follows:

	2019 £'000	2018 £'000
Commercial	(12,426)	(105)
Specialty	6,917	(2,276)
<b>Total</b>	<b>(5,509)</b>	<b>(2,381)</b>



## Notes to the financial statements - continued

### 6. Net operating expenses

	2019 £'000	2018 £'000
Acquisition costs	71,606	84,967
Other acquisition costs	6,675	5,731
Change in ceded deferred acquisition costs	(144)	(211)
Reinsurance commissions	(1,996)	(1,940)
Change in deferred acquisition costs	6,975	(2,366)
<b>Total acquisition costs</b>	<b>83,116</b>	<b>86,181</b>
Administrative expenses	27,430	33,972
<b>Total</b>	<b>110,546</b>	<b>120,153</b>

Administrative expenses include:

	2019 £'000	2018 £'000
Operating lease expenses recharged from CNA Services	1,859	2,547
Audit of Syndicate accounts	254	242
Other auditor services pursuant to Regulations and Lloyd's Byelaws	82	79

### 7. Staff numbers and costs

A management fee for the provision of administration services is payable to CNA Services. During 2019 no staff were employed by the managing agent and no staff costs were incurred directly by the managing agent during 2019 (2018: nil and £nil).

## Notes to the financial statements - continued

### 8. Emoluments of the directors of Hardy (Underwriting Agencies) Limited

The following directors of HUA served during the period, listed below, were all employed and remunerated by CNA Services. It is not practicable to allocate these directors' remuneration between their services across the companies of which they are executives. Therefore the remuneration and pension benefits are included in the financial statements of the individual company which employed and remunerated them, CNA Services:

P Hamer, C A Kearney, J Rehman, D J Stevens and A Williams

The following directors of HUA served during the period, listed below, were all employed and remunerated by CCC. It is not practicable to allocate these directors' remuneration between their services across the companies of which they are executives. Therefore their remuneration is included in the financial statements of the individual company which employed and remunerated them, CCC:

J M Anderson, D J Brosnan and D Worman

Within note 6, administrative expenses include the active underwriter's emoluments for the full year of:

	2019 £'000	2018 £'000
<b>Emoluments</b>	<b>1,053</b>	810

### 9. Other financial investments

	Cost 2019 £'000	Cost 2018 £'000	Fair Value 2019 £'000	Fair Value 2018 £'000
Debt securities and other fixed income securities	204,199	202,300	204,029	208,615
Shares and other variable yield securities	871	-	871	-
Deposits with credit institutions	51,252	47,982	51,252	47,982
<b>Total</b>	<b>256,322</b>	250,282	<b>256,152</b>	256,597

Other financial investments measured by the fair value hierarchy at 31 December are summarised below:

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
<b>2019</b>				
Other financial investments	41,742	213,539	871	256,152
<b>2018</b>				
Other financial investments	46,644	209,953	-	256,597

**Notes to the financial statements** - continued**10. Debtors arising out of direct operations**

	<b>2019</b>	2018
	<b>£'000</b>	£'000
Amounts due from intermediaries	<b>102,262</b>	107,610
Impairment provision	<b>(400)</b>	(275)
<b>Total</b>	<b>101,862</b>	107,335

	<b>2019</b>	2018
	<b>£'000</b>	£'000
Within one year	<b>101,854</b>	107,263
After one year	<b>8</b>	72
<b>Total</b>	<b>101,862</b>	107,335

**11. Other debtors**

	<b>2019</b>	2018
	<b>£'000</b>	£'000
Amounts due from group companies	<b>3,897</b>	2,730
Insurance premium tax	<b>284</b>	261
Other tax and social security	<b>21</b>	95
Sundry debtors	<b>103</b>	2
<b>Total</b>	<b>4,305</b>	3,088

All amounts are expected to be recovered within one year.

**12. Overseas deposits**

Overseas deposits are lodged as a condition of conducting underwriting business in certain territories.

## Notes to the financial statements - continued

### 13. Technical provisions

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

#### Total technical provisions

	2019 £'000	2018 £'000
<b>Gross</b>		
Claims reported	254,230	281,324
Loss adjustment expenses	7,724	7,229
Claims incurred but not reported	220,165	205,185
Unearned premiums	141,921	176,817
<b>Total gross insurance liabilities</b>	<b>624,040</b>	670,555
<b>Reinsurers' share of insurance liabilities</b>		
Claims reported	55,484	70,679
Claims incurred but not reported	68,376	56,464
Unearned premiums	19,347	22,003
<b>Total reinsurers' share of insurance liabilities</b>	<b>143,207</b>	149,146
<b>Net</b>		
Claims reported	198,746	210,645
Loss adjustment expenses	7,724	7,229
Claims incurred but not reported	151,789	148,721
Unearned premiums	122,574	154,814
<b>Total net insurance liabilities</b>	<b>480,833</b>	521,409

## Notes to the financial statements - continued

### 13. Technical provisions - continued

#### Movement in technical provisions

	Provision for unearned premiums £'000	Claims outstanding £'000	Total £'000
<b>Gross</b>			
At 1 January 2018	166,330	425,362	591,692
Foreign exchange revaluation	8,474	16,247	24,721
Movement in provision	2,013	52,129	54,142
<hr/>			
At 1 January 2019	<b>176,817</b>	<b>493,738</b>	<b>670,555</b>
Foreign exchange revaluation	<b>(3,912)</b>	<b>(10,473)</b>	<b>(14,385)</b>
Movement in provision	<b>(30,984)</b>	<b>(1,146)</b>	<b>(32,130)</b>
<hr/>			
At 31 December 2019	<b>141,921</b>	<b>482,119</b>	<b>624,040</b>
<hr/>			
<b>Reinsurance amount</b>			
At 1 January 2018	17,263	123,368	140,631
Foreign exchange revaluation	7,593	5,365	12,958
Movement in provision	(2,853)	(1,590)	(4,443)
<hr/>			
At 1 January 2019	<b>22,003</b>	<b>127,143</b>	<b>149,146</b>
Foreign exchange revaluation	<b>(5,031)</b>	<b>(3,647)</b>	<b>(8,678)</b>
Movement in provision	<b>2,375</b>	<b>364</b>	<b>2,739</b>
<hr/>			
At 31 December 2019	<b>19,347</b>	<b>123,860</b>	<b>143,207</b>
<hr/>			
<b>Net</b>			
<b>At 31 December 2019</b>	<b>122,574</b>	<b>358,259</b>	<b>480,833</b>
<hr/>			
At 31 December 2018	154,814	366,595	521,409

The analysis that follows shows the Syndicate's estimate of the ultimate cost of claims at initial assessment and annually thereafter. An underwriting year basis, rather than an accident year basis, has been presented as this is used internally for the assessment of underwriting performance. Data from all years has been restated at the 2019 closing rates of exchange to remove fluctuations caused by movements in foreign currency rates.

Each table then provides a reconciliation of the syndicate level reserves to the liability provided in the Syndicate's balance sheet. The adjustments have the effect of:

- converting the assessment of claims liabilities from an ultimate to an earned basis, by removing the estimated cost of future claims that are attributable to the unearned premium reserve; and
- including the Syndicate's share of liabilities for the pre-2009 underwriting years.

## Notes to the financial statements - continued

### 13. Technical provisions - continued

#### Claims development table gross of reinsurance

Underwriting year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>100% syndicate values</b>												
At end of first accounting year	134,661	207,222	218,794	209,072	159,968	163,670	172,149	175,693	232,580	212,193	127,845	<b>2,013,847</b>
One year later	11,624	92,961	18,342	(48,875)	10,531	9,224	23,954	18,855	10,348	29,202		<b>176,166</b>
Two years later	(6,237)	7,031	(4,301)	(1,877)	8,270	(1,527)	(2,278)	5,005	22,106			<b>26,192</b>
Three years later	(594)	5,093	(4,416)	6,099	(21,148)	13,048	3,116	(2,172)				<b>(974)</b>
Four years later	(2,213)	3,502	13,421	(8,443)	(3,909)	5,453	(1,725)					<b>6,086</b>
Five years later	(1,565)	7,375	(12,632)	(320)	7,056	(9,443)						<b>(9,529)</b>
Six years later	7,100	(6,106)	1,319	1,885	1,083							<b>5,281</b>
Seven years later	(6,378)	217	1,705	929								<b>(3,527)</b>
Eight years later	371	701	1,190									<b>2,262</b>
Nine years later	178	187										<b>365</b>
Ten years later	394											<b>394</b>
<hr/>												
Current estimate of earned claims at 31 December 2019	137,341	318,183	233,422	158,470	161,851	180,425	195,216	197,381	265,034	241,395	127,845	<b>2,216,563</b>
Cumulative payments to date	(135,336)	(312,213)	(222,419)	(149,446)	(150,914)	(151,311)	(151,525)	(143,137)	(152,098)	(99,739)	(14,534)	<b>(1,682,672)</b>
<hr/>												
Provision as at 31 December 2019	2,005	5,970	11,003	9,024	10,937	29,114	43,691	54,244	112,936	141,656	113,311	<b>533,891</b>
<hr/>												
Claims to be recognised in future underwriting years	-	(30)	(185)	(124)	(198)	(4,844)	8,603	7,716	107	(3,769)	(63,958)	<b>(56,682)</b>
Insurance liabilities in respect of prior underwriting years												<b>4,910</b>
<hr/>												
<b>Insurance liabilities as at 31 December 2019</b>												<b>482,119</b>
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## Notes to the financial statements - continued

### 13. Technical provisions - continued

#### Claims development table net of reinsurance

Underwriting year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>100% syndicate values</b>												
At end of first accounting year	105,932	142,545	141,769	134,485	133,102	143,455	138,181	151,534	186,372	182,544	110,292	<b>1,570,211</b>
One year later	(731)	24,581	(2,272)	(22,100)	17,018	13,848	32,311	12,147	18,450	17,312		<b>110,564</b>
Two years later	(5,060)	1,486	4,531	(996)	4,105	(10,937)	(8,755)	5,706	19,132			<b>9,212</b>
Three years later	(484)	2,161	(3,838)	4,349	(23,646)	(1,184)	395	293				<b>(21,954)</b>
Four years later	(2,325)	3,268	8,102	(9,305)	(4,214)	4,058	742					<b>326</b>
Five years later	(3,534)	7,597	(12,097)	1,207	5,105	(5,038)						<b>(6,760)</b>
Six years later	6,022	(8,073)	(2,287)	1,483	601							<b>(2,254)</b>
Seven years later	(5,295)	420	4,365	59								<b>(451)</b>
Eight years later	356	283	(249)									<b>390</b>
Nine years later	170	125										<b>295</b>
Ten years later	458											<b>458</b>
Current estimate of earned claims at 31 December 2019	95,509	174,393	138,024	109,182	132,071	144,202	162,874	169,680	223,954	199,856	110,292	<b>1,660,037</b>
Cumulative payments to date	(93,578)	(171,691)	(134,357)	(102,956)	(125,905)	(125,622)	(129,169)	(130,298)	(138,664)	(98,188)	(14,533)	<b>(1,264,961)</b>
Provision as at 31 December 2019	1,931	2,702	3,667	6,226	6,166	18,580	33,705	39,382	85,290	101,668	95,759	<b>395,076</b>
Claims to be recognised in future underwriting years	-	-	(185)	(110)	(194)	(4,755)	10,808	8,440	1,414	(2,483)	(52,702)	<b>(39,767)</b>
Insurance liabilities in respect of prior underwriting years												<b>2,950</b>
<b>Insurance liabilities as at 31 December 2019</b>												<b>358,259</b>

## Notes to the financial statements - continued

### 14. Other creditors

	2019 £'000	2018 £'000
Amounts due to group companies	6,014	1,633
Contingent commissions	475	541
Sundry creditors	351	121
<b>Total</b>	<b>6,840</b>	<b>2,295</b>

### 15. Related parties

The immediate parent undertaking of HUA is HUB, a company incorporated in Bermuda.

The ultimate parent and controlling party is Loews Corporation, incorporated in the United States of America. Group financial statements for Loews Corporation are available from 667 Madison Avenue, New York, 10065-8087, USA.

CICL and CCC provide HUL with Funds at Lloyd's to support the Syndicate's capital requirement to continue underwriting at Lloyd's. HUL pays an annual fee of 2.5% for the provision of these funds.

During the year CNA Services recharged £28,304,000 (2018: £29,387,000) in administrative expenses to the Syndicate. These amounts are included within note 6. The balance due to CNA Services as at 31 December 2019 is £4.6m.

During the year Hardy Underwriting Asia Pte. Limited ("HAP") recharged £972,000 (2018: £5,709,000) in administrative expenses to the Syndicate. These amounts are included within note 6. The balance due to HAP as at 31 December 2019 is £1.2m.

Managing agent fees of £247,500 (2018: £247,500) were paid by the Syndicate to HUA during 2019. The balance at 31 December 2019 is £nil.

### 16. Funds at Lloyd's

Every member of Lloyd's is required to hold capital at Lloyd's. This capital is held in trust and is known as FAL. The funds are intended primarily to cover circumstances where syndicate assets prove insufficient to meet participating member's underwriting activities.

The level of FAL that Lloyd's requires a member to maintain is ultimately determined by Lloyd's taking account, inter alia, of a number of factors including the nature and amount of underwriting risk assumed by the member and the assessment of the reserving risk in respect of business that has already been underwritten. FAL is not under the management of the managing agent, so no amounts have been shown in these financial statements to reflect it. The managing agent is able to make a call on member's FAL to meet liquidity requirements and to settle losses should this be required.

The FAL requirement is provided by a combination of the member as well as by CICL and CCC.

### 17. Post balance sheet events

The reinsurance premium to close the 2017 year of account of Syndicate 382 at 31 December 2019 was agreed by the managing agent on 13 February 2020. £13.7 million will be collected from the member.