15/3/16
FINAL
Original signed

Important information about Syndicate Reports and Accounts

Access to this document is restricted to persons who have given the certification set forth below. If this document has been forwarded to you and you have not been asked to give the certification, please be aware that you are only permitted to access it if you are able to give the certification.

The syndicate reports and accounts set forth in this section of the Lloyd's website, which have been filed with Lloyd's in accordance with the Syndicate Accounting Byelaw (No. 8 of 2005), are being provided for informational purposes only. The syndicate reports and accounts have not been prepared by Lloyd's, and Lloyd's has no responsibility for their accuracy or content. Access to the syndicate reports and accounts is not being provided for the purposes of soliciting membership in Lloyd's or membership on any syndicate of Lloyd's, and no offer to join Lloyd's or any syndicate is being made hereby. Members of Lloyd's are reminded that past performance of a syndicate in any syndicate year is not predictive of the related syndicate's performance in any subsequent syndicate year.

You acknowledge and agree to the foregoing as a condition of your accessing the syndicate reports and accounts. You also agree that you will not provide any person with a copy of any syndicate report and accounts without also providing them with a copy of this acknowledgment and agreement, by which they will also be bound.

2015 Annual Report and Accounts Syndicate 4141

HCC Underwriting Agency Ltd

TOKIO MARINE
HCC

ANNUAL REPORT AND ACCOUNTS

CONTENTS

TOKIO MARINE
HCC

DIRECTORS AND ADVISORS

Managing Agent:	HCC Underwriting Agency Ltd
Registered Office:	1 Aldgate London EC3N 1RE
Registered No:	4632146
Directors:	S A Button B J Cook T J G Hervy N I Hutton-Penman (Chief Executive Officer) K L Letsinger N C Marsh (Non-executive Chairman) H-D Rohlf (Non-executive Director) C Scarr (Non-executive Director) W R Treen (Non-executive Director)
Syndicate:	Syndicate 4141
Active Underwriter:	S A Button
Company Secretary:	D R Feldman R L Hughes J L Holliday
Bankers:	Barclays Bank plc
Investment Manager:	General Re-New England Asset Management Ltd
Independent Auditors:	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors 7 More London Riverside London SE1 2RT

REPORT OF THE DIRECTORS OF THE MANAGING AGENT

Strategic report

The directors of the Managing Agent present their report and the audited financial statements of Syndicate 4141 (the "Syndicate") for the year ended 31 December 2015 ("Annual Report and Accounts").

The Annual Report and Accounts have been prepared using the annual basis of accounting in accordance with Regulation 5 of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ("the 2008 Regulations").

Principal Activity

The Syndicate is managed by HCC Underwriting Agency Ltd which is authorised by the Prudential Regulation Authority and regulated by both the Financial Conduct Authority and the Prudential Regulation Authority. The principal activity of the Syndicate is the transaction of general insurance and reinsurance business in the United Kingdom and it operates solely within the Lloyd's market from its offices in London. The Syndicate trades through Lloyd's worldwide licences and benefits from the Lloyd's brand. Lloyd's has an A (Excellent) rating from A.M. Best and A+ (Strong) ratings from Fitch Ratings and Standard & Poor's Financial Services LLC.

The Syndicate's capital is provided by Nameco (No. 808) Limited (Nameco). Nameco's ultimate parent company is Tokio Marine Holdings, Inc. (TMHD). TMHD's head office is located in Tokyo, Japan. TMHD is a leading international insurance group with offices worldwide. As of 31 December 2015, TMHD had total assets of YEN ¥21.9 trillion and shareholders' equity of YEN ¥3.6 trillion. TMHD and its subsidiary insurance companies have a financial strength rating of A+ (Stable) from Standard & Poor's Financial Services LLC.

TMHD acquired HCC Insurance Holdings, Inc (HCC) on 27 October 2015. Prior to that date, the Syndicate's ultimate capital provider was HCC Insurance Holdings, Inc. (HCC) whose head office is located in Houston, Texas. HCC is now an intermediate holding company of Nameco and continues to manage the HCC group.

HCC group underwriters write business for the Syndicate, and other HCC group insurance operations, based on prescribed rules that determine which HCC carrier is utilised, the main determinate of carrier being licensing, distribution or client choice. Lines underwritten include Property Treaty, Property Direct and Facultative, Accident and Health, Energy, General Liability, Marine Hull, Financial Lines and Credit and Political Risk. In addition, the Syndicate exclusively underwrites Travel Medical business on behalf of the group's wholly-owned agency, HCC Medical Insurance Services (HCCMIS), based in Indiana, USA. Financial Lines is similarly underwritten via HCC Global Financial Products S.L. (HCCG), whilst the Syndicate's Contingency and additional Accident and Health business is underwritten via a consortium arrangement managed by HCC Specialty Ltd.

Strategy and Market Conditions

The Syndicate's business philosophy and strategic focus is to underwrite profitable business which includes careful risk selection and reinsurance purchasing in order to preserve Member's equity and risk adjusted return on capital. Insurance underwriting is concentrated in selected, narrowly defined, speciality lines of business where it is believed underwriting profit can be achieved. Our experienced underwriting personnel with access to, and expertise in, the insurance and reinsurance marketplace has enabled the Syndicate to achieve its strategic objectives and continued increase in premium. The current rating environment for the Energy and Marine, Property Direct and Facultative and Property Treaty business is extremely challenging and will likely result in decreased premium volumes. However, the Travel Medical business is not impacted by this and has experienced organic growth during 2015 which we expect to continue in 2016.

TOKIO MARINE HCC

REPORT OF THE DIRECTORS OF THE MANAGING AGENT

Business Review

Results and Performance

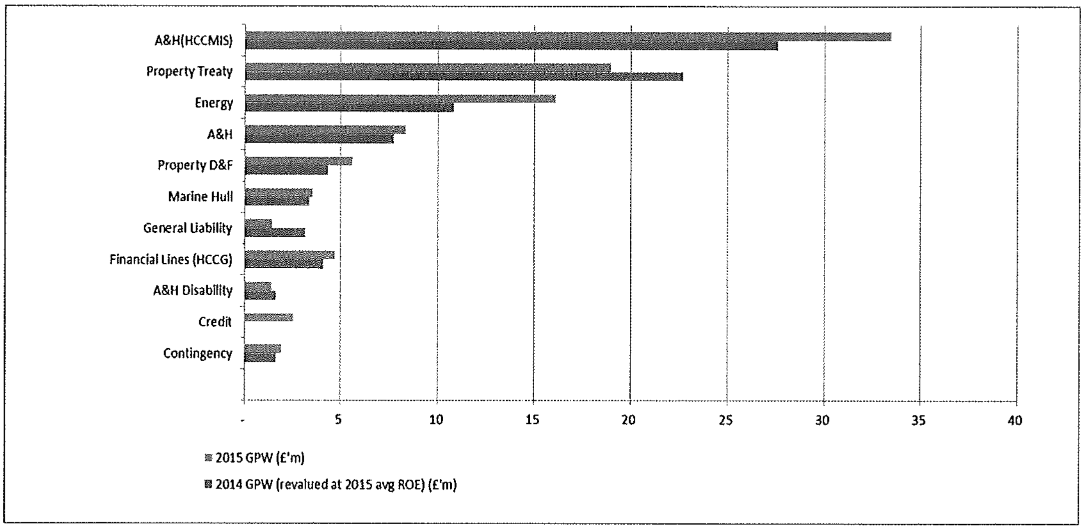
The Syndicate made a profit for the financial year of £2.9m (2014: £6.1m, as restated under New UK GAAP, see Note 3), as set out on pages 12 and 13 which includes £2.1m losses (£2.9m gains) from foreign exchange. Balance on the technical account for the financial year totalled £5.0m (£3.2m, as restated under New UK GAAP) which reflects a combined ratio of 92.4% in 2015 (2014: 96.4%). As in 2014, the technical result benefitted from the relatively benign catastrophe environment during 2015. Prior year reserve movements resulted in a £1.6m release in 2015, compared to a £4.1m release in 2014 (see Note 7).

A substantial amount of business is underwritten in US dollars and during 2015 the average exchange rate strengthened to $1.53 = £1, from $1.65 in 2014. This increased the value of US dollar income and expenses when translated into reporting pounds sterling.

Gross written premium totalled £97.9m compared to £80.8m in 2014. The £17.1m increase in premium includes a £6.3m increase due to foreign exchange. The remaining £10.8m increase is principally attributable to £5.4m from several new initiatives within the Marine and Energy businesses and £5.9m A&H business (HCCMIS Travel Medical) from organic growth. The Group's Credit and Political Risk team began underwriting business in the Syndicate in late 2015 to complement the business already written on other Group platforms. The rating environment for traditional Property related London market products has been challenging during 2015 and we expect this to continue in 2016. We will not underwrite business if we do not believe pricing is at a level that will meet our targeted returns. As a result, in the current London Market environment, it would not be unexpected if the 2016 gross written premium decreases compared to 2015.

The largest line of business underwritten by the Syndicate continues to be Accident and Health, followed closely by Property Treaty. The Accident and Health premium is comprised principally of Travel Medical business written on behalf of the Syndicate by HCCMIS. HCCMIS operates in a very competitive market place and in recent years has withdrawn from certain products that were not achieving target returns. Offsetting this reduction was the continued growth in the short term travel medical product Atlas, which is sold to travellers around the world via the internet.

The following bar chart shows 2015 gross premium written for the Syndicate's principal lines of business compared to prior year:



Investment return was £1.5m lower in 2015 at £(0.7)m (2014: £0.8m). The principal driver of this reduction was the £13.1m decrease in the investment portfolio due to fall in market values and following the distribution of the 2012 year of account underwriting profits.

REPORT OF THE DIRECTORS OF THE MANAGING AGENT

Key Performance Indicators (KPIs)

The Managing Agent monitors a number of KPIs for the business:

	2015 £m	2014 £m
Cash and investments	94.9	109.7
Gross written premiums	97.9	80.8
Underwriting result (excl. investment return)	5.0	3.2
Profit for the financial year	2.9	6.1
Net loss ratio	45.6%	57.6%
Combined ratio (excl. investment return)	92.4%	96.4%
Investment return	(0.7)	0.8

Overall, the directors are satisfied with the financial position of the Syndicate as at the year end.

Business Line Synopsis

Accident and Health

The largest line of business written, Accident and Health, is comprised principally of the Travel Medical business written by HCCMIS which grew by £5.9m. The overall environment for our Accident and Health portfolio is very competitive with plentiful capacity in many of the markets we operate in, offering prices below our benchmarks. We, however, maintain our underwriting discipline and target areas of the market in which we believe we can make long term returns. Our short term travel medical product, sold via the internet, continues to generate growth from expanded distribution of the product.

Property Treaty

Property Treaty premium written in 2015 decreased by £3.7m reflecting the general market conditions. We continue to support clients well known to us by providing capacity on higher layers of our clients' programs. This strategy has been successful and our historic loss experience compares favourably with that of our peers. Market pressure on rates and terms and conditions continues. However, we have a clear return orientated strategy and only support accounts that will achieve good returns over the cycle. The continued increasing capacity in the reinsurance market, contributed to by the influx of collateralised markets, contribute to the overall challenging market conditions.

Marine and Energy

The Marine and Energy portfolio increased in 2015 by £5.4m due to several new initiatives relating to opportunities in Canada. However, the market continues to be very competitive with excess capacity chasing reduced premium volumes resulting from low oil prices. We do not write Gulf of Mexico exposed business in the Syndicate.

Other Lines

The remainder of the business volume is comprised of London Market Contingency, Financial Lines, Property Direct and Facultative and General Liability business. We began underwriting Credit and Political Risk business in the Syndicate due to expansion of the existing HCC Credit business. We remain conservative in our underwriting of these lines.

Reinsurance

Reinsurance to cover catastrophe exposed lines is purchased by segment on a shared basis for the HCC International insurance entities. Reinsurance premiums on excess of loss programmes are allocated across HCC UK platforms based on gross written premiums. Reinsurance recoveries are allocated based on the share of gross losses suffered by each entity. Purchases of the shared reinsurance programme are advised to both Lloyd's and the Prudential Regulation Authority. In addition, the Syndicate purchases quota share and facultative reinsurance to balance line size and premium where it is prudent to do so.

TOKIO MARINE
HCC

REPORT OF THE DIRECTORS OF THE MANAGING AGENT

Principal Risks and Uncertainties

The Board sets risk appetite as part of the Syndicate's business planning and capital assessment process. The Managing Agent regularly reviews and updates the risk register and monitors performance against risk appetite using a series of key risk indicators – see Note 5 to the financial statements.

Directors report

Directors

The directors of the Managing Agent, who were in office during the year and up to the date of signing the financial statements, unless otherwise stated, were:

S A Button
B J Cook
K J Cordier (resigned 30 June 2015)
T J G Hervy
N I Hutton-Penman BSc, ACA
K L Letsinger BSc, CPA
N C Marsh
J L T Newbegin (resigned 30 June 2015)
H-D Rohlf
C Scarr (appointed 12 June 2015)
W R Treen BSc, FIA

Directors' Interests

No director participated in the Syndicate.

Financial Information on HCC Underwriting Agency Ltd.

Summary financial income of the Syndicate's Managing Agent, HCC Underwriting Agency Ltd, is set out below:

	2015 £000 (unaudited)	2014 £000
Managed capacity	120,000	120,000
Fee income	150	150
Expenses net of recharges	(66)	(59)
Other expense	(6)	(6)
Profit before tax	78	85
Net assets	1,052	874

A copy of the Managing Agent's financial statements will be available for inspection at its registered office.

Investment Policy and Management

The investment function is overseen by the Investment Committee, which operates under terms of reference set by the Board. The Committee is responsible for preparing, in conjunction with the Syndicate's Investment Managers, the investment policy for approval by the Board. It is also responsible for monitoring investment performance and recommending the appointment of Investment Managers.

TOKIO MARINE
HCC

REPORT OF THE DIRECTORS OF THE MANAGING AGENT

The Syndicate maintains funds in US dollars, Sterling pounds, Canadian dollars, Euros and Australian dollars. Certain national regulators have requirements for funds to be held and controlled either domestically or by Lloyd's. The remaining funds are referred to as unregulated funds and their investment is under the Syndicate's control within the framework laid down by the Prudential Regulation Authority.

General Re-New England Asset Management Limited are Investment Managers for the US dollar, Sterling and Euro funds throughout the year. Each fund consists primarily of a portfolio of highly rated Corporate Bonds which are rated BBB and above, including Bonds guaranteed by the US, UK, German and Canadian governments. The average duration of the aggregate funds at the year end was 2.35 years (2014: 2.22 years).

The performance of the managed funds is summarised below based on original currency portfolio results. These results are different from the results shown in Note 10 which are calculated based on US dollar functional currency results. The annualised investment return on managed funds was 1.15% for the US dollar portfolios, 0.86% for the Sterling portfolio, and -0.08% for the Euro portfolio. The US dollar portfolios underperformed the benchmark by about 10 bps. While the overweight to the Taxable Municipal sector was a positive contributor (Taxable Municipals returned almost 2% in 2015), it was more than offset by the portfolio's overweight to the front-end of the curve which underperformed in 2015 in anticipation of the first Fed Funds rate hike in almost 10 years. The return on the Sterling portfolio also underperformed the benchmark due mostly to the portfolio's overweight to BBB rated Corporates. BBB rated Corporates underperformed in 2015 and, as a result, the Corporate portfolio had a return that was about 23 bps lower than the Corporate index (+0.90% vs. +1.13% for the Corporate index). The return on the Euro portfolio also underperformed the benchmark in 2015. A large percentage of bonds in the Euro market have negative yields. Alternatively, additional Corporates have been purchased resulting in a higher allocation than the benchmark which caused the returns to lag the benchmark.

Other funds were placed on the money market or within short-term liquidity funds.

Other Matters
No consents have been requested from the Council of Lloyd's.

The Syndicate has not entered into any incentive agreements with brokers.

Statement of Managing Agent's Responsibilities
The Managing Agent is responsible for preparing the Syndicate 4141 Annual Report and Accounts in accordance with applicable law and regulations.

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 requires the Managing Agent to prepare Syndicate Annual Accounts at 31 December each year in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The annual accounts are required by law 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 Accounts, the Managing Agent is required to:
- Select suitable accounting policies and then apply them consistently;
- Make judgments and 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 Annual Accounts; and
- Prepare the Annual Accounts on the basis that the Syndicate will continue to write future business unless it is inappropriate to presume that the Syndicate will do so.

The directors of the Managing Agent confirm that they have complied with the above requirements in preparing the Annual Accounts.

TOKIO MARINE
HCC

REPORT OF THE DIRECTORS OF THE MANAGING AGENT

The directors of the Managing Agent are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Syndicate and enable it to ensure that the Syndicate Annual Accounts comply with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. 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.

The directors of the Managing Agent are responsible for the maintenance and integrity of the corporate and financial information included on the Lloyd's and Tokio Marine HCC website. Legislation in the UK governing the presentation and dissemination of financial statements may differ from legislation in other jurisdictions.

Disclosure of Information to the Auditors
So far as each person who was a director of the Managing Agent at the date of approval of this report is aware, there is no relevant audit information, being information needed by the auditors in connection with its report, of which the auditors are unaware. Having made enquiries of fellow directors of the Agency, each director has taken all the steps that they are obliged to take as a director in order to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

Independent Auditors
PricewaterhouseCoopers LLP will be reappointed as the Syndicate's auditors.

Annual General Meeting
The directors do not propose to hold a Syndicate Annual General Meeting during 2015, as permitted under the Syndicate Meetings (Amendment No. 1) Byelaw (No. 18 of 2000).

The capacity provider may object to the matter set out above within 21 days of the issue of these accounts. Any such objection should be addressed to J L Holliday, Company Secretary, at the registered office.

Approved for and on behalf of HCC Underwriting Agency Ltd.

N. I. Hutton-Penman
Chief Executive Officer
15 March 2016

TOKIO MARINE HCC

INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF SYNDICATE 4141

Report on the Syndicate Annual Accounts

Our Opinion

In our opinion, Syndicate 4141 Annual Accounts (the "Syndicate Annual Accounts"):

- give a true and fair view of the state of the Syndicate's affairs as at 31 December 2015 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

What we have audited

The Syndicate Annual Accounts for the year ended 31 December 2015, included within Annual Report and Accounts (the "Annual Report"), comprise:

- the profit and loss account
- the statement of comprehensive income
- the balance sheet
- the statement of changes in equity
- the statement of cash flows
- the notes to the Syndicate Annual Accounts, which include a summary of significant accounting policies and other explanatory information.

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

In applying the financial reporting framework, the Managing Agent has made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

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

In our opinion the information given in the Managing Agent's Report for the financial year for which the Syndicate Annual Accounts are prepared is consistent with the Syndicate Annual Accounts.

Other 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 to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- the Managing Agent in respect of the Syndicate has not kept adequate accounting records; or
- the Syndicate Annual Accounts are not in agreement with the accounting records.

We have no exceptions to report arising from this responsibility.

Responsibilities for the syndicate annual accounts and the audit

Our responsibilities and those of the Managing Agent

As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 8, the Managing Agent is responsible for the preparation of the Syndicate Annual Accounts and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the Syndicate Annual Accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF SYNDICATE 4141

This report, including the opinions, has been prepared for and only for the Syndicate's members as a body in accordance with part 2 of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of Syndicate Annual Accounts involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the Syndicate Annual Accounts sufficient to give reasonable assurance that the Syndicate Annual Accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Syndicate's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Managing Agent; and
- the overall presentation of the Syndicate Annual Accounts.

We primarily focus our work in these areas by assessing the Managing Agent's judgements against available evidence, forming our own judgements, and evaluating the disclosures in the Syndicate Annual Accounts.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited Syndicate Annual Accounts and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Paul Pannell (Senior statutory auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
15 March 2016

TOKIO MARINE HCC

PROFIT AND LOSS ACCOUNT:
TECHNICAL ACCOUNT – GENERAL BUSINESS
for the year ended 31 December 2015

	Notes		2015		2014
		£000	£000	£000	£000
Earned premiums, net of reinsurance					
Gross premiums written	6	97,895		80,803	
Outward reinsurance premiums		(18,445)		(15,129)	
Net premiums written		79,450		65,674	
Change in the provision for unearned premiums					
Gross amount		(5,783)		2,208	
Reinsurers' share		1,096		167	
Change in the net provision for unearned premiums		(4,687)		2,375	
Earned premiums, net of reinsurance			74,763		68,049
Investment return transferred from the non-technical account			(655)		761
Claims incurred, net of reinsurance					
Claims paid					
Gross amount		(58,511)		(58,136)	
Reinsurers' share		13,375		11,486	
Net claims paid		(45,136)		(46,650)	
Change in the provision for claims					
Gross amount		13,801		4,148	
Reinsurers' share		(2,779)		3,330	
Change in the net provision for claims		11,022		7,478	
Claims incurred, net of reinsurance	7		(34,114)		(39,172)
Net operating expenses	8		(35,004)		(26,428)
Balance on the technical account for general business			4,990		3,210

All amounts relate to continuing operations.

TOKIO MARINE
HCC

PROFIT AND LOSS ACCOUNT: NON-TECHNICAL ACCOUNT

for the year ended 31 December 2015

	Notes	2015 £000	2014 £000
Balance on the general business technical account		4,990	3,210
Investment income	10	1,595	2,617
Unrealised gains on investments	10	-	352
Investment expenses and charges	10	(409)	(106)
Unrealised losses on investments	10	(1,841)	(2,102)
Investment return transferred to general business technical account		655	(761)
Other charges, including value adjustments		(2,060)	2,861
Profit for the financial year		2,930	6,071

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2015

	2015 £000	2014 £000
Profit for the financial year	2,930	6,071
Foreign currency exchange profit on retranslation	113	79
Total recognised gains	3,043	6,150

TOKIO MARINE
HCC

BALANCE SHEET
as at 31 December 2015

	Notes		2015		2014
		£000	£000	£000	£000
ASSETS					
Investments					
Other financial investments	11		91,683		104,830
Reinsurers' share of technical provisions					
Provision for unearned premiums		5,663		4,367	
Claims outstanding	15	63,723		64,885	
			69,386		69,252
Debtors					
Debtors arising out of direct insurance operations	12	22,454		18,001	
Debtors arising out of reinsurance operations		2,907		5,552	
Other debtors	13	909		5,535	
			26,270		29,088
Other assets					
Cash at bank and in hand		3,246		4,815	
Overseas deposits	14	64		68	
			3,310		4,883
Prepayments and accrued income					
Accrued interest		512		849	
Deferred acquisition costs		8,388		6,904	
Other prepayments and accrued income		3		-	
			8,903		7,753
Total assets			199,552		215,806

TOKIO MARINE
HCC

BALANCE SHEET
as at 31 December 2015

	Notes	£000	2015 £000	£000	2014 £000
LIABILITIES					
Member's balance			6,961		18,602
Technical provisions					
Provision for unearned premiums		31,503		24,416	
Claims outstanding	15	144,553		155,728	
			176,056		180,144
Creditors					
Creditors arising out of direct insurance operations		1,177		3,479	
Creditors arising out of reinsurance operations		7,867		5,904	
Other creditors including taxation and social security	16	6,035		6,522	
			15,079		15,905
Accruals and deferred Income			1,456		1,155
Total liabilities			199,552		215,806

The annual accounts on pages 12 to 41 were approved by the Board of HCC Underwriting Agency Ltd and signed on its behalf by

K L Letsinger
Director
15 March 2016

TOKIO MARINE
HCC

STATEMENTS OF CHANGES IN EQUITY AND CASH FLOWS

for the year ended 31 December 2015

STATEMENT OF CHANGES IN EQUITY	Notes	2015 £000	2014 £000
Member's balance brought forward at 1 January		18,602	3,858
Profit for the financial year		2,930	6,071
Foreign currency exchange (loss)/profit on retranslation		113	79
(Profit)/loss distribution		(14,684)	8,594
Member's balance carried forward at 31 December		6,961	18,602

STATEMENT OF CASH FLOWS		2015 £000	2014 £000
Net cash inflow/(outflow) from operating activities	17	760	(4,171)
Investing:			
Purchase of debt securities		(12,392)	(18,295)
Sale of debt securities		23,444	13,486
Invesment income received		1,299	4,425
Financing:			
(Profit)/loss distribution		(14,684)	8,594
Net cash (outflow)/inflow		(1,573)	4,039
Cash and cash equivalents at beginning of year		4,883	844
Cash and cash equivalents at end of year		3,310	4,883

Cash and cash equivalents consist of:	2015 £000	2014 £000
Cash at bank and in hand	3,246	4,815
Short term deposits with credit institutions	64	68
	3,310	4,883

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Syndicate 4141 ('the Syndicate') is an unincorporated entity managed by HCC Underwriting Agency Ltd (HCCUA) which is authorised by the Prudential Regulation Authority and regulated by both the Financial Conduct Authority and the Prudential Regulation Authority. The principal activity of the Syndicate remains the transaction of general insurance and reinsurance business in the United Kingdom and it operates solely within the Lloyd's market from its offices in London. HCCUA is a private company limited by shares and is incorporated in England. The address of its registered office is 1 Aldgate, London EC3N 1RE.

2. STATEMENT OF COMPLIANCE

The individual financial statements of the Syndicate have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ('FRS 102'), Financial Reporting Standard 103, "Insurance Contracts" ('FRS 103') and the Companies Act 2006. FRS 102 and 103 are collectively referred to as New UK GAAP.The financial statements have been prepared in compliance with the provisions of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations relating to insurance entities.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. Details of the transition to FRS 102 and FRS 103, which are effective from 1 January 2015, are disclosed in Note 22. In particular, in adopting 'New UK GAAP', the Syndicate has adopted the US dollar as its sole functional currency whereas under previous UK GAAP, the Syndicate had multiple functional currencies. It has also accounted for unearned premium and deferred acquisition costs as monetary liabilities and assets. Prior to FRS 102, these items were accounted for as non-monetary items and converted at historic rates.

a. Basis of preparation

These financial statements have been prepared in accordance with Regulation 5 of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and in conformity with New UK GAAP. New UK GAAP requires financial statement disclosure about the use of certain critical accounting estimates for which management has exercised judgement in the process of applying the Syndicate's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

Comparatives

Comparative amounts have been adjusted to conform to changes in accounting policies and presentation in the current year.

b. Going concern

Having assessed the principal risks, the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements.

c. Foreign currency

Functional and presentation currency

The Syndicate's functional currency is US Dollars and, consistent with prior years, the reporting currency is pounds sterling. Prior to 2015, the Syndicate maintained five functional currencies: Sterling pounds, US dollars, Australian dollars, Canadian dollars and Euros. In accordance with New UK GAAP and the requirement for a single functional currency, the Syndicate selected US dollars as its sole functional currency given that the majority of business is conducted in that currency. The 2014 comparative financial statements have been restated to reflect US dollar functional currency.

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions. At each period end, foreign currency monetary assets and liabilities are translated using the closing rate. For this purpose all assets and liabilities arising from insurance contracts (including unearned premiums, deferred acquisition costs and unexpired risks provisions) are monetary items. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the non-technical profit and loss account.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of non-monetary assets and liabilities denominated in foreign currencies are recognised in other comprehensive income for those items where the gain is required to be recognised within other comprehensive income, and in the non-technical account where the gain is required to be recognised within profit or loss.

The foreign exchange rates used for translation to the reporting currency are set out below.

a) assets and liabilities at the closing rate at the balance sheet date which for Sterling was £1 = US$1.4826 (2014: US$1.5535).
b) income and expenses at the average rate during the year which for Sterling was £1 = US$1.53 (2014: $1.65).

d. Insurance contracts

i. Classification of insurance and investment contracts

The Syndicate issues insurance contracts that transfer significant insurance risk. The Syndicate does not issue investment contracts that transfer financial risk.

ii. Insurance contracts

Results are determined on an annual basis whereby the incurred cost of claims, commission and related expenses are charged against the earned proportion of premiums, net of reinsurance, as follows:

a. Premiums written

Premiums written relate to business incepted during the year, together with adjustments made in the year to premiums written in prior accounting periods. Premiums are shown gross of brokerage payable and exclude taxes and duties levied on them. Estimates are made for unreported, or pipeline, premiums representing amounts due to the Syndicate not yet notified.

b. Unearned premiums

Unearned premiums represent the proportion of premiums written in the year that relate to unexpired terms of policies in force at the balance sheet date, calculated on a time apportionment/risk profile basis.

c. Acquisition costs

Acquisition costs, which represent commission and other related expenses, are deferred over the period in which the related premiums are earned. No profit commission is charged by the Managing Agent.

d. Claims incurred

Claims incurred comprise claims and related expenses paid in the year and changes in the provisions for outstanding claims, including provisions for claims incurred but not reported and related expenses, together with any other adjustments to claims from previous years.

e. Claims provisions and related reinsurance recoveries

Provision is made at the year-end for the estimated cost of claims incurred but not settled at the balance sheet date, including the cost of claims incurred but not yet reported to the Syndicate. The estimated cost of claims includes expenses to be incurred in settling claims. The Syndicate takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. 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. Gross loss provisions are calculated gross of any reinsurance recoveries.

The estimate of claims incurred but not reported ('IBNR') is generally subject to a greater degree of uncertainty than the estimate of the cost of settling claims already notified to the Syndicate, where more information about the claim event is generally available. Claims IBNR may often not be apparent to the insured until many years after the event giving rise to the claims has happened. Classes of business where the IBNR proportion of the total reserve is high will typically display greater variations between initial estimates and final outcomes because of the greater degree of difficulty of estimating these reserves. Classes of business where claims are typically reported relatively quickly after the claim event tend to display lower levels of volatility. In calculating the estimated cost of unpaid claims the Syndicate uses a variety of estimation techniques, generally based upon statistical analysis of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience. Allowance is made 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, and
- movements in industry benchmarks.

A component of these estimation techniques is usually the estimation of the cost of notified but not paid claims. In estimating the cost of these, the Syndicate has regard to the claim circumstance as reported, any information available from loss adjusters and information on the cost of settling claims with similar characteristics in previous periods.

Large claims impacting each relevant business class are generally assessed separately, being measured on a case by case basis, or projected separately, in order to allow for the possible distortive effect of the development and incidence of these large claims.

Where possible, the Syndicate adopts multiple techniques to estimate the required level of provisions. This assists in giving greater understanding of the trends inherent in the data being projected. The projections given by the various methodologies also assist in setting the range of possible outcomes. The most appropriate estimation technique is selected taking into account the characteristics of the business class and the extent of the development of each accident year.

Reinsurance

Reinsurance to cover catastrophe exposed lines is purchased on a shared basis for the international insurance entities. Reinsurance premiums on excess of loss programmes are allocated across HCC UK platforms based on gross written premiums. Reinsurance recoveries are allocated based on the share of gross losses suffered by each carrier. Purchases of the shared reinsurance programme are advised to both Lloyd's and the PRA. Additionally, the Syndicate purchases quota share reinsurance to balance line size and premium where it is prudent to do so.

Unexpired risks provision

Provisions are made for any deficiencies arising when unearned premiums, net of associated acquisition costs, are insufficient to meet expected claims and expenses after taking into account future investment return on the investments supporting the unearned premiums provision and unexpired risks provision. The expected claims are calculated based on information available at the balance sheet date. Unexpired risks surpluses and deficits are offset where business classes are managed together and a provision is made if an aggregate deficit arises. The unexpired risks provision would be included within 'Other technical provisions'.

Subrogation and salvage
Recoveries arising out of subrogation or salvage are estimated on a prudent basis and included within other debtors.

e. Taxation
Under Schedule 19 of the Finance Act 1993, the Syndicate is not a taxable entity. Corporation tax is accounted for and payable by the Syndicate's corporate member, Nameco (No. 808) Limited. For US tax purposes, no provision has been made for any United States Federal Income Tax payable on underwriting results or investment earnings. Any tax payments made or suffered by the Syndicate during the year are transferred to Nameco (No 808) Limited.

f. Cash and cash equivalents
Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts, when applicable, are shown within borrowings in current liabilities.

g. Provisions and contingencies
Provisions
Provisions are recognised when:
- the Syndicate has a present legal or constructive obligation as a result of past events
- it is probable that an outflow of resources will be required to settle the obligation, and
- the amount of the obligation can be estimated reliably.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations might be small. Provisions for levies are recognised on the occurrence of the event identified by legislation that triggers the obligation to pay the levy.

Contingencies
Contingent liabilities arise as a result of past events when:
(i) it is not probable that there will be an outflow of resources or that the amount cannot be reliably measured at the reporting date, or
(ii) when the existence will be confirmed by the occurrence or non-occurrence of uncertain future events not wholly within the Syndicate's control.

Contingent liabilities are disclosed in the financial statements unless the probability of an outflow of resources is remote. Contingent assets are not recognised. Contingent assets are disclosed in the financial statements when an inflow of economic benefits is probable. Contingent assets stop being recognised as contingent at the point it is determined the benefit is virtually certain.

h. Financial instruments
The Syndicate has chosen to apply the recognition and measurement provisions of IAS 39 (as adopted for use in the EU) and the disclosure requirements of FRS 102 in respect of financial instruments.

i. Financial assets
The Syndicate classifies its financial assets into the following categories:
- Shares and other variable yields securities and units in unit trusts – at fair value through profit or loss
- Debt securities and other fixed-income securities – at fair value through profit or loss,
- Deposits with credit institutions - loans and receivables.

Management determines the classification of its investments at initial recognition and re-evaluates this at every reporting date.

Financial assets designated as at fair value through profit and loss at inception are those that are managed and whose performance is evaluated on a fair value basis. Information about these financial assets is provided internally on a fair value basis to the Syndicate's key management personnel. The Syndicate's investment strategy is to invest in fixed and variable interest rate debt securities and units in unit trusts.

The fair values of financial instruments traded in active markets are based on quoted bid prices on the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

The fair values of financial instruments that are not traded in an active market (for example, corporate bonds), are established by the directors using valuation techniques which seek to arrive at the price at which an orderly transaction would take place between market participants.

Net gains or losses arising from changes in the fair value of financial assets at fair value through profit or loss are presented in the profit and loss account within 'Unrealised gains on investments' or 'Unrealised losses on investments' in the period in which they arise.

Deposits with credit institutions - Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the Syndicate intends to sell in the short term or that it has designated as at fair value through profit or loss. When a financial liability is recognised initially it is measured at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial liability. Loans and receivables are subsequently measured at amortised cost using the effective interest method. Receivables arising from insurance contracts are also classified in this category and are reviewed for impairment as part of the impairment review of loans and receivables. This basis of valuation is viewed by the directors as having prudent regard to the likely realisable value.

j. Impairment of financial assets
For financial assets not at fair value through profit or loss, the Syndicate assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Syndicate about the following events:

- significant financial difficulty of the issuer or debtor
- a breach of contract, such as a default or delinquency in payments
- it becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganisation
- the disappearance of an active market for that financial asset because of financial difficulties, or
- observable data indicating that there is a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
    - adverse changes in the payment status of issuers or debtors in the group, or
    - national or local economic conditions that correlate with defaults on the assets in the Syndicate.

NOTES TO THE FINANCIAL STATEMENTS

The Syndicate first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If the Syndicate determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred on loans and receivables the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the profit and loss account for the period. As a practical expedient, the Syndicate may measure impairment on the basis of an instrument's fair value using an observable market price.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Syndicate's grading process that considers asset type, industry, geographical location, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the issuer's ability to pay all amounts due under the contractual terms of the debt instrument being evaluated.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as improved credit rating), the previously recognised impairment loss is reversed through the profit and loss account for the period.

k. Financial liabilities

Creditors are financial liabilities and are recognised initially at fair value, net of directly attributable transaction costs. Long-term creditors are subsequently stated at amortised cost, using the effective interest method.

l. Investment return

Interest income is recognised using the effective interest rate method. Investment expenses are accounted for on an accruals basis.

Realised gains and losses on investments carried at fair value through profit and loss are calculated as the difference between net sales proceeds and purchase price. Movements in unrealised gains and losses on investments represent the difference between the fair value at the balance sheet date and their purchase price or their fair value at the last balance sheet date, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

Investment return is initially recorded in the non-technical account. A transfer is made from the non-technical account to the technical account of the longer-term investment return (as estimated by the directors) on investments supporting the insurance technical provisions and related Member's balance. This transfer is made so that the balance on the technical account is based on a longer-term rate of investment return and is not subject to distortion from short-term fluctuations in investment return.

m. Distributions to Member

Distributions to its Member are made in the year following the year a Year of Account closes, which is generally three years after inception of the Year of Account.

n. Related party transactions

The Syndicate discloses transactions with related parties. Where appropriate, transactions of a similar nature are aggregated unless, in the opinion of the directors, separate disclosure is necessary to understand the effect of the transactions on the Syndicate's financial statements.

NOTES TO THE FINANCIAL STATEMENTS

4. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATION UNCERTAINTY

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Significant judgements in applying the accounting policies

Estimation of the ultimate net losses incurred from the issuance of insurance contracts involves assumptions concerning the future, and the resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

i. The ultimate liability arising from claims made under insurance contracts

The estimate of the ultimate liability arising from claims made under insurance contracts is the Syndicate's most critical accounting estimate. The carrying amount of the claims outstanding, net of reinsurance, is £80.8m (2014: £90.8m). There are several sources of uncertainty that need to be considered in the estimate of the liability that the Syndicate will ultimately pay for such claims. The level of provision has been set on the basis of the information that is currently available, including potential outstanding loss advices, experience of development of similar claims, historical experience, case law and legislative and judicial actions.

The most significant assumptions made relate to the level of future claims, the level of future claims settlements and the legal interpretation of insurance policies. Whilst the directors consider that the gross provision for claims and the related reinsurance recoveries are fairly stated on the basis of the information currently available to them, the ultimate liability will vary as a result of subsequent information and events and may result in significant adjustments to the amount provided. Adjustments to the amounts of provision are reflected in the financial statements for the period in which the adjustments are made. The methods used, and the estimates made, are reviewed regularly. See Note 15 for disclosures relating to these provisions and Note 5.1.d for loss development triangles.

ii. Fair value of financial instruments

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The carrying value of these instruments is £56.8m (2014: £69.0m). The Syndicate uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period.

iii. Pipeline premium

The Syndicate makes an estimate of premiums written during the year that have not yet been notified by the financial year end ('pipeline premiums') based on prior year experience and current year business volumes. The pipeline premium is booked as written and an assessment is made of the related unearned premium provision and an estimate of claims incurred but not reported in respect of the earned element. The pipeline premium included within gross written premium is £14.6m (2014: £9.3m).

5. RISK MANAGEMENT

The Syndicate has identified the risks arising from its activities and has established policies and procedures to manage these risks in accordance with its risk appetite. The Syndicate categorises its risks into eight areas: insurance, strategic, market, operational, credit, regulatory and legal, liquidity, group risk and capital management. The sections below outline the Syndicate's risk appetite and explain how it defines and manages each category of risk.

5.1 Insurance risk

The Syndicate's insurance business assumes the risk of loss from persons or organisations that are themselves directly exposed to an underlying loss. Insurance risk arises from this risk transfer due to inherent uncertainties about the occurrence, amount and timing of insurance liabilities. The four key components of insurance risk are underwriting, reinsurance purchasing, claims management and reserving. Each element is considered below.

5.1.a) Underwriting risk

Underwriting risk relates to the potential losses arising from inadequate underwriting. There are four elements that apply to all insurance products offered by the Syndicate:

- cycle risk – the risk that business is written without full knowledge as to the (in)adequacy of rates, terms and conditions;
- event risk – the risk that individual risk losses or catastrophes lead to claims that are higher than anticipated in plans and pricing;
- pricing risk – the risk that the level of expected loss is understated in the pricing process; and
- expense risk – the risk that the allowance for expenses and inflation in pricing is inadequate.

We manage and model these four elements in the following three categories; attritional claims, large claims and catastrophe events.

The Syndicate's underwriting strategy is to seek a diverse and balanced portfolio of risks in order to limit the variability of outcomes. This is achieved by accepting a spread of business over time, segmented between different products, geographies and sizes.

To manage underwriting exposures, the Syndicate has developed limits of authority and business plans which are binding upon all staff authorised to underwrite and are specific to underwriters, classes of business and industry.

These authority limits are enforced through a comprehensive sign-off process for underwriting transactions including dual sign-off for all line underwriters and an escalation process for all risks exceeding individual underwriters' authority limits. Exception reports are also run regularly to monitor compliance and a rigorous peer and external review process are in place.

Rate monitoring, including risk adjusted rate change and adequacy against benchmark rates are recorded and reported.

The annual Syndicate Business Forecast (SBF) incorporates the Syndicate's underwriting strategy by line of business and sets out the classes of business, the territories and the industry sectors in which business is to be written. The SBF is approved by the directors and monitored by the underwriting committees on a monthly basis.

Our underwriters calculate premiums for risks written based on a range of criteria tailored specifically to each individual risk. These factors include, but are not limited to, the financial exposure, loss history, risk characteristics, limits, deductibles, terms and conditions and acquisition expenses using rating and other models.

The Syndicate also recognises that insurance events are, by their nature, random, and the actual number and size of events during any one year may vary from those estimated using established statistical techniques.

To address this, the Syndicate sets out its risk appetite (expressed as Probable Maximum Loss estimates (PMLs) and modelled return period events) in certain territories as well as a range of events such as natural catastrophes and specific scenarios which may result in large industry losses. As part of the Lloyd's market, this is monitored through regular calculation and reporting of realistic disaster scenarios (RDS) to Lloyd's. Additionally, the aggregates position is monitored at the time of underwriting a risk and reports are regularly produced to highlight the key aggregations to which the Syndicate is exposed.

NOTES TO THE FINANCIAL STATEMENTS

The Syndicate uses a number of modelling tools to monitor its exposures against the agreed risk appetite set and to simulate catastrophe losses in order to measure the effectiveness of its reinsurance programmes. Stress and scenario tests are also run using these models.

One of the largest types of event exposure relates to natural catastrophe events such as windstorm or earthquake. Where possible, the Syndicate measures geographic accumulations and uses its knowledge of the business, historical loss behaviour and commercial catastrophe modelling software to assess the expected range of losses at different return periods. Upon application of the reinsurance coverage purchased, the key gross and net exposures are calculated on the basis of extreme events at a range of return periods.

The Syndicate's catastrophe risk appetite set by the directors is limited to a gross PML aggregate of no more than 200% of Capital, and for a probability of gross catastrophe event exceeding 50% of Capital of less than 1%. Additionally, the appetite for non-modelled risk and other potential non-Natural Catastrophe perils is in line with the Catastrophe appetites noted above.

5.1.b) Reinsurance risk

Reinsurance risk arises where reinsurance contracts:

- do not perform as anticipated
- result in coverage disputes, or
- prove inadequate in terms of the vertical or horizontal limits purchased.

Failure of a reinsurer to pay a valid claim is considered a credit risk which is detailed in the credit risk section (see Note 5.5).

The purchase of reinsurance is a key tool utilised to manage underwriting risk. The Syndicate's reinsurance programme is comprised predominantly of excess of loss cover which may be overplaced to manage retentions and to protect against reinstatement costs. Prior to placement of the programme, it is modelled against significant historic and modelled events across the peak exposure areas. The programme is purchased by class of business basis modelling catastrophe, large and attritional losses separately.

Minimum retention is set equal to the Annual Aggregate Loss (AAL) for our catastrophe exposed lines. However, where market opportunity allows, additional reinsurance is purchased. Quota share and facultative reinsurance is also utilised where considered appropriate. An HCC reinsurance approval group based in Houston examines and approves all reinsurers to ensure that they possess suitable security. The Syndicate's reinsurance team ensures that these guidelines are followed, undertakes the administration of reinsurance contracts and monitors and instigates our responses to any erosion of the reinsurance programmes.

5.1.c) Claims management risk

Claims management risk may arise within the Syndicate in the event of inaccurate or incomplete case reserves and claims settlements, poor service quality or excessive claims handling costs. These risks may damage the Syndicate brand and undermine its ability to win and retain business, or incur punitive damages. These risks can occur at any stage of the claims life cycle.

The Syndicate's claims teams are focused on delivering quality, reliability and speed of service to both internal and external clients. Their aim is to adjust and process claims in a fair, efficient and timely manner, in accordance with the policy's terms and conditions, the regulatory environment, and the business' broader interests. Prompt and accurate case reserves are set for all known claims liabilities, including provisions for expenses, as soon as a reliable estimate can be made of the claims liability.

5.1.d) Reserving risk

Reserving risk occurs within the Syndicate where established insurance liabilities are insufficient through inaccurate forecasting, or where there is inadequate allowance for expenses and reinsurance bad debts.

The objective of the Syndicate's reserving policy is to produce accurate and reliable estimates that are consistent over time and across classes of business. The Syndicate's reserving process is governed by the IBNR Committee, a subcommittee of the Board, which meets quarterly basis (more frequently if catastrophic events require). The membership of the IBNR Committee is comprised of Executives, actuarial, claims and finance representatives. A fundamental part of the reserving process involves information from and recommendations by each underwriting team for each underwriting year and reserving class of business. These estimates are compared to the actuarial estimates (described in further detail below) and management's best estimate of IBNR is recorded. It is the policy of the Syndicate to carry, at a minimum, the actuarial best estimate. It is not unusual for management's best estimate to be higher than the actuarial estimate.

The actuarial reserving team uses a range of recognised techniques to project current paid and incurred claims and monitors claim development patterns. This analysis is then supplemented by a variety of tools (such as backtesting, scenario testing, sensitivity testing and stress testing) which are applied as part of the Internal Model validation process. An external independent actuary also performs an annual review to produce a statement of actuarial opinion.

Gross and net development triangles of the estimate of ultimate claim cost for claims notified in a given year of account (YOA) are presented below and give an indication of the accuracy of the Syndicate's estimation technique for claims payments. Data has been translated using 31st December 2015 foreign exchange rates throughout the triangle.

Loss development triangles – GROSS	**Underwriting year (pure YOA)**					
Ultimate claims and cumulative payments	**2011 £000**	**2012 £000**	**2013 £000**	**2014 £000**	**2015 £000**	**TOTAL £000**
End of reporting year	44,281	25,296	24,953	27,154	30,031	
- one year later*	88,430	52,325	48,353	41,944		
- two years later	89,904	51,355	58,240			
- three years later	87,758	47,783				
- four years later	83,865					
Current estimate of ultimate claims	83,865	47,783	58,240	41,944	30,031	
Cumulative payments to date	(68,719)	(37,309)	(33,279)	(26,462)	(5,974)	
Liability recognised in the balance sheet	15,146	10,474	24,961	15,482	24,057	90,120
Provision in respect of previous years						54,433
Total provision included in the balance sheet						**144,553**

Loss development triangles - NET	Underwriting year (pure YOA)					
Ultimate claims and cumulative payments	2011 £000	2012 £000	2013 £000	2014 £000	2015 £000	TOTAL £000
End of reporting year	37,282	20,148	20,747	25,568	22,634	
- one year later*	69,076	35,633	37,985	38,342		
- two years later	70,684	36,283	40,590			
- three years later	67,491	35,064				
- four years later	63,846					
Current estimate of ultimate claims	63,846	35,064	40,590	38,342	22,634	
Cumulative payments to date	(50,577)	(29,354)	(32,296)	(25,672)	(5,809)	
Liability recognised in the balance sheet	13,269	5,710	8,294	12,670	16,825	56,768
Provision in respect of previous years						24,062
Total provision included in the balance sheet						**80,830**

* the significant increase in estimate of ultimate claims one year later reflects the earning patterns of in-force policies beyond the first year under YOA accounting.

5.2 Strategic risk

This is the risk that the Syndicate's strategy is inappropriate or that the Syndicate is unable to implement its strategy. Where events supersede the Syndicate's strategic plan this is escalated at the earliest opportunity through the Syndicate's monitoring tools and governance structure.

On a day-to-day basis, the Syndicate's management structure encourages organisational flexibility and adaptability, while ensuring that activities are appropriately coordinated and controlled. By focusing on the needs of their customers and demonstrating both progressive and responsive abilities, staff, management and outsourced service providers are expected to excel in service and quality. Individuals and teams are also expected to transact their

activities in an open and transparent way. These behavioural expectations reaffirm low risk tolerance by aligning interests to ensure that routine activities, projects and other initiatives are implemented to benefit and protect resources of both local business segments and the Syndicate as a whole.

5.3 Market risk

Market risk arises where the value of assets and liabilities or future cash flows change as a result of fluctuations in economic variables, such as movements in foreign exchange rates, interest rates and market prices.

Managing investment risk as a whole is fundamental to the operation and development of our investment strategy key to the investment of Syndicate assets.

The investment strategy is developed by reference to an investment risk budget, set annually by the directors as part of the overall risk budgeting framework of the business. In 2015, the investment risk budget was set at a level such that the amount of an investment loss, at the 1-in-200 Tail Value at Risk (TVaR) level, was limited to the Syndicate's excess capital (above the regulatory minimum). This was the result of a complete investment strategy review carried out by the Syndicate's Investment Managers, General Re-New England Asset Management Ltd. The investment risk budget will be at a similar level in 2016.

Investment strategy is consistent with this risk appetite and investment risk is monitored on an ongoing basis. The internal model includes an asset risk module, which uses an Economic Scenario Generator (ESG) to simulate multiple simulations of financial conditions, to support stochastic analysis of investment risk, which is supplemented by bespoke analysis from our investment consultants. Internal model output is used to assess potential investment downsides, at different confidence levels, including '1 in 200', which reflects Solvency II modelling requirements. In addition, we undertake regular scenario tests (which look at shock events such as yield curve shifts, credit spread widening, or the repeat of historic events) to assess the impact of potential investment losses.

ESG outputs are regularly validated against actual market conditions, but (as noted above) we also use a number of other qualitative measures to support the monitoring and management of investment risk.

5.3.a) Foreign exchange risk

The Syndicate's functional currency is the US dollar and the presentational currency in which the Syndicate reports its results is Sterling pounds. The effect of this on foreign exchange risk is that the Syndicate is mainly exposed to fluctuations in exchange rates for non-sterling denominated transactions. Although net assets in the balance sheet are relatively small, comprising Member's balance on the open Years of Account which are distributed when the YOA closes, foreign exchange risk arises if net assets in individual foreign currencies are not balanced.

The Syndicate operates in five main currencies: US dollars, Sterling pounds, Canadian dollars, Australian dollars and euros. Transactions in all currencies are converted to the US dollar functional currency on initial recognition with any balances on monetary items at the reporting date being translated to the US dollar spot rate.

In 2015, the Syndicate managed its foreign exchange risk by periodically assessing its non-sterling exposures and rebalancing by switching cash and investments among foreign currencies to reduce exposure to a tolerable level.

The following table summarises the carrying value of total assets and total liabilities and net profit, converted to pounds sterling, categorized by the Syndicate's main currencies:

FX risk exposure	**CAD $**	**EUR €**	**US $**	**AUD $**	**Subtotal**	**UK £**	**Total**
31 December 2015	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Total assets	19,700	16,199	100,372	15,066	151,337	48,215	199,552
Total liabilities	(16,702)	(13,751)	(98,552)	(15,702)	(144,707)	(47,884)	(192,591)
Net assets	**2,998**	**2,448**	**1,820**	**(636)**	**6,630**	**331**	**6,961**
Net profit	**(2,104)**	**4,419**	**(1,600)**	**(6,594)**	**(5,879)**	**8,809**	**2,930**

FX risk exposure	**CAD $**	**EUR €**	**US $**	**AUD $**	**Subtotal**	**UK £**	**Total**
31 December 2014	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Total assets	13,950	17,587	98,090	23,666	153,293	62,513	215,806
Total liabilities	(6,227)	(14,917)	(88,128)	(29,720)	(138,992)	(58,212)	(197,204)
Net assets	**7,723**	**2,670**	**9,962**	**(6,054)**	**14,301**	**4,301**	**18,602**
Net profit	**5,769**	**4,747**	**5,702**	**(17,309)**	**(1,091)**	**7,162**	**6,071**

Sensitivity analysis

Fluctuations in the Syndicate's trading currencies against pounds sterling would result in a change to net profit and net asset value. The table below gives an indication of the impact on net profit and net assets of a percentage change in the relative strength of the pound sterling against the value of the Canadian dollar, the Australian dollar, the euro and the US dollar, simultaneously.

FX risk exposure - sensitivity	**Impact on net profit**		**Impact on net assets**	
Change in exchange rate of Canadian dollar, Australian dollar, Euro and US dollar, relative to sterling	**2015 £000**	**2014 £000**	**2015 £000**	**2014 £000**
Sterling weakens 30% against other currencies	2,523	468	2,848	6,129
Sterling weakens 20% against other currencies	1,472	273	1,661	3,575
Sterling weakens 10% against other currencies	654	121	738	1,589
Sterling strengthens 10% against other currencies	(654)	(121)	(738)	(1,589)
Sterling strengthens 20% against other currencies	(1,472)	(273)	(1,661)	(3,575)
Sterling strengthens 30% against other currencies	(2,523)	(468)	(2,848)	(6,129)

5.3.b) Interest rate risk

Some of the Syndicate's financial instruments, including cash and certain financial assets at fair value, are exposed to movements in market interest rates.

The Syndicate manages interest rate risk by investing primarily in short duration financial assets along with cash. The Investment Committee monitors the duration of these assets on a regular basis.

Changes in interest rates also impact the present values of estimated Syndicate liabilities, which are used for solvency calculations. Our investment strategy reflects the nature of our liabilities, and the combined market risk of investment assets and estimated liabilities is monitored and managed within specified limits.

The following table shows the average duration at the reporting date of the financial instruments that are exposed to movements in market interest rates. Duration is a commonly used measure of volatility and we believe gives a better indication than maturity of the likely sensitivity of our investment portfolio to changes in interest rates.

Investments and cash - duration 31 December 2015	**<1 yr £000**	**1-2 yrs £000**	**2-3yrs £000**	**3-4 yrs £000**	**4-5 yrs £000**	**5-10 yrs £000**	**>10 yrs £000**	**Total £000**
Shares and other variable yield securities	18,013							18,013
Debt securities	6,184	12,771	8,421	5,502	4,604	2,948		40,430
Overseas deposits	33,240							33,240
Total other financial investments	**57,437**	**12,771**	**8,421**	**5,502**	**4,604**	**2,948**		**91,683**
Overseas deposits in other assets	64							64
Cash at bank	3,246							3,246
Total	**60,747**	**12,771**	**8,421**	**5,502**	**4,604**	**2,948**		**94,993**

Investments and cash - duration 31 December 2014	**<1 yr £000**	**1-2 yrs £000**	**2-3 yrs £000**	**3-4 yrs £000**	**4-5 yrs £000**	**5-10 yrs £000**	**>10 yrs £000**	**Total £000**
Shares and other variable yield securities	16,307							16,307
Debt securities	9,063	12,284	16,730	8,047	3,658	2,298	147	52,227
Overseas deposits	36,296							36,296
Total other financial investments	**61,666**	**12,284**	**16,730**	**8,047**	**3,658**	**2,298**	**147**	**104,830**
Overseas deposits in other assets	68							68
Cash at bank	4,815							4,815
Total	**66,549**	**12,284**	**16,730**	**8,047**	**3,658**	**2,298**	**147**	**109,713**

Sensitivity analysis

Changes in interest yields, with all other variables constant, would result in changes in the capital value of debt securities as well as subsequent interest receipts and payments. This would affect reported profits and net assets as indicated in the table below:

Investments and cash – interest rate sensitivity	Impact on net profit		Impact on net assets	
	2015	2014	2015	2014
Shift in yield (basis points)	**£000**	**£000**	**£000**	**£000**
100 basis point increase	(1,030)	1,249	(1,030)	1,249
50 basis point increase	(515)	625	(515)	625
50 basis point decrease	413	(368)	413	(368)
100 basis point decrease	826	(737)	826	(737)

5.4 Operational risk

Operational risk arises from the risk of losses due to inadequate or failed internal processes, people, systems, service providers or external events. Operational risk includes Conduct Risk.

The Syndicate actively manages operational risks and minimises them where appropriate. This is achieved by implementing and communicating guidelines to staff and other third parties. The Syndicate also regularly monitors the performance of its controls and adherence to these guidelines through the risk management reporting process. Key components of the Syndicate's operational control environment include:

- modelling of operational risk exposure and scenario testing
- management review of activities
- documentation of policies and procedures
- preventative and detective controls within key processes
- contingency planning, and
- other systems controls.

5.5 Credit risk

Credit risk arises where counterparties fail to meet their financial obligations in full as they fall due. The primary sources of credit risk for the Syndicate are:

- reinsurers – whereby reinsurers may fail to pay valid claims against a reinsurance contract held by the Syndicate;
- brokers and coverholders – whereby counterparties fail to pass on premiums or claims collected or paid on behalf of the Syndicate;
- investments – whereby issuer default results in the Syndicate losing all or part of the value of a financial instrument; and
- financial institutions holding cash.

The Syndicate's core business is to accept significant insurance risk and the appetite for other risks is low. This protects the Syndicate's solvency from erosion so that it can meet its insurance liabilities.

The Syndicate limits exposure to a single counterparty or a group of counterparties and analyses the geographical locations of exposures when assessing credit risk.

An approval system also exists for all new brokers and coverholders and their performance is carefully monitored. Regular exception reports highlight trading with non-approved brokers, and the Syndicate's credit control function frequently assesses the ageing and collectability of debtor balances. Any large, aged items are prioritised and where collection is outsourced incentives are in place to support these priorities.

The Investment Committee has established comprehensive guidelines for the Syndicate's Investment Managers regarding the type, duration and quality of investments acceptable to the Syndicate. The performance of our Investment Managers is regularly reviewed to confirm adherence to these guidelines.

The Syndicate has developed processes to formally examine all reinsurers before entering into new business arrangements. New reinsurers are approved by the reinsurance approval group based in Houston which also reviews arrangements with all existing reinsurers at least annually. Vulnerable or slow-paying reinsurers are examined more frequently. To assist in the understanding of credit risks, A.M. Best, Moody's and Standard & Poor's (S&P) ratings are used. The Syndicate's concentrations of credit risk have been categorised by these ratings as follows:

Investments and cash – credit ratings 31 December 2015	**AAA £000**	**AA £000**	**A £000**	**BBB £000**	**< BBB £000**	**Not rated £000**	**Total £000**
Shares and variable yield securities	8,243	9,770					18,013
Debt securities	5,076	16,385	13,179	5,790			40,430
Overseas deposits	23,290	3,837	5,038	1,051	19	5	33,240
Total other financial investments	**36,609**	**29,992**	**18,217**	**6,841**	**19**	**5**	**91,683**
Reinsurers' share of claims outstanding		33,640	30,083				63,723
Overseas deposits						64	64
Cash at bank				3,246			3,246
Total	**36,609**	**63,632**	**48,300**	**10,087**	**19**	**69**	**158,716**

Investments and cash – credit ratings 31 December 2014	**AAA £000**	**AA £000**	**A £000**	**BBB £000**	**< BBB £000**	**Not rated £000**	**Total £000**
Shares and variable yield securities	5,466	10,824	17				16,307
Debt securities	11,103	17,248	19,742	4,134			52,227
Overseas deposits	11,617	19,104	4,618	447		510	36,296
Total other financial investments	**28,186**	**47,176**	**24,377**	**4,581**	**-**	**510**	**104,830**
Reinsurers' share of claims outstanding		32,120	31,808			957	64,885
Overseas deposits						68	68
Cash at bank				4,815			4,815
Total	**28,186**	**79,296**	**56,185**	**9,396**	**-**	**1,535**	**174,598**

The largest counterparty exposure is £4,858,000 of US Treasuries (2014: £3,473,000).

Insurance receivables and other receivable balances held by the Syndicate have not been impaired, based on available evidence, and no impairment provision has been recognised in respect of these assets. An aged analysis of the Syndicate's insurance and reinsurance receivables that are past due at the reporting date is presented below:

Financial assets – ageing 31 December 2015	**Not yet due £000**	**Up to 3 months past due £000**	**3 to 6 months past due £000**	**7 to 12 months past due £000**	**> 1 year past due £000**	**Total £000**
Reinsurers share of claims outstanding	63,723					63,723
Insurance debtors	19,825	676	201	1,504	248	22,454
Reinsurance debtors		775	70	575	1,487	2,907
Other debtors	910					910
Total	**84,458**	**1,451**	**271**	**2,079**	**1,735**	**89,994**

Financial assets – ageing 31 December 2014	Not yet due £000	Up to 3 months past due £000	3 to 6 months past due £000	7 to 12 months past due £000	> 1 year past due £000	Total £000
Reinsurers share of claims outstanding	64,885					64,885
Insurance debtors	16,403	804	337	181	276	18,001
Reinsurance debtors		4,395	302	181	674	5,552
Other debtors	5,535					5,535
Total	**86,823**	**5,199**	**639**	**362**	**950**	**93,973**

Fair value estimation

The following table presents the Syndicate's financial investments measured at fair value at 31 December 2015 and 31 December 2014. No liabilities were measured at fair value at 31 December 2015 or 31 December 2014.

Financial investments – pricing basis	Level A £000	Level B £000	Level C £000	Total £000
2015				
Shares and other variable yield securities			18,013	18,013
Debt securities	4,857		35,573	40,430
Overseas deposits	30,045	3,195		33,240
Other financial investments	**34,902**	**3,195**	**53,586**	**91,683**
Overseas deposits in other assets		64	-	64
Total	**34,902**	**3,259**	**53,586**	**91,747**
2014				
Shares and other variable yield securities	-	-	16,307	16,307
Debt securities	3,538		48,688	52,227
Overseas deposits	32,350	3,946	-	36,296
Other financial investments	**35,889**	**3,946**	**64,995**	**104,830**
Overseas deposits in other assets	-	68	-	68
Total	**35,889**	**4,014**	**64,995**	**104,898**

New UKGAAP defines the disclosure of investments levels as follows:

Level A – quoted prices in an active market.
These comprises the fair value of financial instruments traded in active markets is based on quoted bid prices at the balance sheet date as described in Note 3(i).

Level B - recent transactions in an identical asset, if there is unavailability of quoted prices.
These comprises financial instruments that have observable prices for recent arm's length transactions for an identical asset. Determining whether a market is active requires the exercise of judgement and is determined based upon the facts and circumstances of the market for the instrument being measured. Given the practicality of applying the definition of Level B investments to its bond portfolio, the Syndicate has chosen a conservative approach to classify all securities other than Sovereign and overseas deposits as Level C securities.

Level C - use of a valuation technique, if there is no active market of other transactions which are a good estimate of fair value.
These comprise financial instruments where it is determined that there is no active market or that the application of criteria to demonstrate such are Level B securities is impractical. New UK GAAP requires that fair value is established through the use of a valuation technique which incorporates relevant information to reflect appropriate adjustments for credit and liquidity risks and maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. The relative weightings given to differing sources of information and the determination of non-observable inputs to valuation models can require the exercise of significant judgement.

NOTES TO THE FINANCIAL STATEMENTS

5.6 Regulatory and legal risk

Regulatory and legal risk is the risk arising from not complying with regulatory and legal requirements. The operations of the Syndicate are subject to legal and regulatory requirements within the jurisdictions in which it operates and the Syndicate's compliance function is responsible for ensuring that these requirements are adhered to. During 2015, conduct risk was promoted to being a risk event in its own right.

5.7 Liquidity risk

Liquidity risk arises where cash may not be available to pay obligations when due at a reasonable cost. The Syndicate is exposed to daily calls on its available cash resources, principally from claims arising from its insurance business. In the majority of cases, these claims are settled from premiums received.

The Syndicate's approach is to manage its liquidity position so that it can reasonably survive a significant individual or market loss event (details of the Syndicate's management of its exposure to realistic disaster scenarios (RDS) are provided in Note 5.1.a). This means that the Syndicate maintains sufficient liquid assets, or assets that can be converted into liquid assets at short notice and without any significant capital loss, to meet expected cash flow requirements. These liquid funds are regularly monitored using cash flow forecasting to ensure that surplus funds are invested to achieve a higher rate of return. The Syndicate can also draw on group funds to bridge short-term cash flow requirements. The following table is an analysis of the net contractual cash flows based on all the liabilities held at 31 December 2015 and 2014:

Financial liabilities – projected cash flows 31 December 2015	**Within 1 year £000**	**1-3 years £000**	**3-5 years £000**	**>5 years £000**	**Total £000**
Net claims outstanding	44,162	24,871	6,801	4,996	80,830
Creditors from direct insurance operations	1,177				1,177
Creditors from reinsurance operations	7,867				7,867
Other creditors	6,035				6,035
Total	**59,241**	**24,871**	**6,801**	**4,996**	**95,909**

Financial liabilities – projected cash flows 31 December 2014	**Within 1 year £000**	**1-3 years £000**	**3-5 years £000**	**>5 years £000**	**Total £000**
Net claims outstanding	41,953	30,902	9,341	8,647	90,843
Creditors from direct insurance operations	3,479				3,479
Creditors from reinsurance operations	5,904				5,904
Other creditors	6,522				6,522
Total	**57,858**	**30,902**	**9,341**	**8,647**	**106,748**

The next two tables summarise the carrying amount at the reporting date of financial instruments analysed by maturity date.

Investments and cash - maturity 31 December 2015	**<1 yr £000**	**1-2 yrs £000**	**2-3 yrs £000**	**3-4 yrs £000**	**4-5 yrs £000**	**5-10 yrs £000**	**>10 yrs £000**	**Total £000**
Shares and other variable yield securities	18,013							18,013
Debt securities	6,110	12,601	7,163	6,036	2,636	3,712	2,172	40,430
Overseas deposits	33,240							33,240
Total other financial investments	**57,363**	**12,601**	**7,163**	**6,036**	**2,636**	**3,712**	**2,172**	**91,683**
Overseas deposits	64							64
Cash at bank	3,246							3,246
Total	**60,673**	**12,601**	**7,163**	**6,036**	**2,636**	**3,712**	**2,172**	**94,993**

Investments and cash - maturity 31 December 2014	<1 yr £000	1-2 yrs £000	2-3 yrs £000	3-4 yrs £000	4-5 yrs £000	5-10 yrs £000	>10 yrs £000	Total £000
Shares and other variable yield securities	16,307							16,307
Debt securities	8,319	11,248	15,038	7,357	3,745	1,640	4,880	52,227
Overseas deposits	36,296							36,296
Total other financial investments	**60,922**	**11,248**	**15,038**	**7,357**	**3,745**	**1,640**	**4,880**	**104,830**
Overseas deposits	68							68
Cash at bank	4,815							4,815
Total	**65,805**	**11,248**	**15,038**	**7,357**	**3,745**	**1,640**	**4,880**	**109,713**

5.8 Group risk

Group risk occurs where business units fail to consider the impact of their activities on other parts of the group, as well as the risks arising from these activities. There are two main components of group risk which are explained below.

5.8.a) Contagion

Contagion risk is the risk arising from actions of one part of the group which could adversely affect any other part of the group. The Syndicate is a member of the Tokio Marine group and therefore may be impacted by the actions of any other group company. This risk is managed by operating with clear and open lines of communication across the group to ensure all group entities are well informed and working to common goals.

5.8.b) Reputation

Reputation risk is the risk of negative publicity as a result of the Tokio Marine group's contractual arrangements, customers, products, services and other activities. Key sources of reputation risk include reliance upon the Tokio Marine HCC brand. The Syndicate's preference is to minimise reputation risks, but where it is not possible or beneficial to avoid them, we seek to minimise their frequency and severity by management through public relations and communication channels.

5.9 Capital management

Lloyd's applies capital requirements at member level and centrally to ensure that Lloyd's complies with Solvency II, and beyond that to meet Lloyd's own financial strength, licence and ratings objectives. To meet this objective, Lloyd's capital setting processes use a capital requirement set at syndicate level as a starting point and in order to meet the Solvency II and Lloyd's capital requirements. The requirement to meet Solvency II and Lloyd's capital requirements apply at overall and member level only respectively, not at syndicate level. Accordingly the capital requirement in respect of Syndicate 4141 is not disclosed in these financial statements.

In order to meet Lloyd's requirements, each syndicate is required to calculate its Solvency Capital Requirement (SCR) for the prospective underwriting year. This amount must be sufficient to cover a 1 in 200 year loss, reflecting uncertainty in the ultimate run-off of underwriting liabilities (SCR 'to ultimate'). The syndicate must also calculate its SCR at the same confidence level but reflecting uncertainty over a one year time horizon (one year SCR) for Lloyd's to use in meeting Solvency II requirements. The SCRs of each syndicate are subject to review by Lloyd's and approval by the Lloyd's Capital and Planning Group. Syndicate 4141 is wholly aligned and does not participate on any other Syndicate; therefore the SCR for Nameco is equal to that of the Syndicate.

Over and above the SCR, Lloyd's applies capital uplift to the member's capital requirement, known as the Economic Capital Assessment (ECA). The purpose of this uplift, which is a Lloyd's, not Solvency II requirement, is to meet Lloyd's financial strength, licence and ratings objectives. The capital uplift applied for 2016 was 35% of the member's SCR 'to ultimate'. Nameco provides the capital to meet its ECA by assets held in trust by Lloyds (e.g. Funds at Lloyd's).

NOTES TO THE FINANCIAL STATEMENTS

6. SEGMENTAL ANALYSIS

An analysis of the underwriting result is set out below:

	Gross premiums written £000	Gross premiums earned £000	Gross claims incurred £000	Gross operating expenses £000	Reinsurance balance £000	Net Underwriting result £000
2015						
Direct insurance:						
Accident and health	36,982	36,849	(16,167)	(20,198)	(72)	210
Marine aviation and transport	7,040	6,338	(3,059)	(2,386)	160	54
Fire and other damage to property	10,269	8,262	(10,451)	(1,551)	12,406	6,988
Third party liability	5,052	4,558	316	(1,132)	(1,151)	170
Miscellaneous	5,778	4,196	(1,830)	(1,014)	876	(174)
Total direct	65,121	60,203	(31,191)	(26,281)	12,219	7,248
Reinsurance assumed	32,774	31,909	(13,519)	(8,723)	(1,623)	(1,603)
Total	97,895	92,112	44,710	(35,004)	10,596	5,645
Investment income						(655)
Technical account						4,990
2014						
Direct Insurance:						
Accident and health	31,171	33,523	(17,996)	(12,518)	(21)	1,746
Marine aviation and transport	4,571	3,976	(78)	(2,153)	(579)	6
Fire and other damage to property	5,789	5,565	(2,407)	(1,250)	101	1,316
Third party liability	5,571	6,233	(7,196)	(2,980)	3,757	(2,525)
Miscellaneous	1,514	1,813	(617)	(540)	431	12
Total direct	48,617	51,110	(28,294)	(19,441)	3,689	555
Reinsurance assumed	32,186	31,901	(25,694)	(6,987)	11,127	1,894
Total	80,803	83,011	(53,988)	(26,428)	14,816	2,449
Investment income						761
Technical account						3,210

The reinsurance balance represents the (charge)/credit to the technical account from the aggregate of all items relating to reinsurance outwards. Total commissions for direct insurance amounted to £15,211,041 (2014: £12,278,848). All premiums were concluded in the UK.

The geographical analysis of gross premiums written by destination is:

	2015 £000	2014 £000
UK	16,305	13,546
Other EU countries	4,253	3,904
Rest of the world	77,337	63,353
Total	97,895	80,803

NOTES TO THE FINANCIAL STATEMENTS

7. MOVEMENT IN PRIOR YEARS' PROVISION FOR CLAIMS OUTSTANDING

Net claims incurred includes prior accident year reserve release totaling £1.6m (2014: £4.1m release).

8. NET OPERATING EXPENSES

	2015 £000	2014 £000
Acquisition costs	28,835	19,088
Change in deferred acquisition costs	(1,138)	(237)
Reinsurers' commissions and profit participation	(1,751)	(1,631)
Administrative expenses (see analysis below)	9,058	9,208
	35,004	26,428
Administrative expenses:		
Wages and salaries	860	1,000
Social security costs	205	124
Other pension costs	65	68
Total staff costs	**1,130**	**1,192**
Syndicate auditors' remuneration – audit services	225	167
Syndicate auditors' remuneration – other assurance services	117	113
Personal expenses	1,037	516
Other expenses	6,549	7,220
	9,058	9,208

The average number of direct underwriting staff (excluding directors) working for the Syndicate during the year was 7 (2014: 7).

All staff are employed by HCC Service Company Inc. (UK branch). The disclosures for staff costs and headcount above relate to underwriting staff only. The costs of staff providing central services for group entities (including claims and underwriting support staff) are allocated and recharged to the Syndicate as a management fee. These staff are not included in salary costs and average staff numbers as it is not practical to allocate them to the underlying entities to which the staff provide services.

9. DIRECTORS' EMOLUMENTS

The directors of HCC Underwriting Agency Ltd. received the following aggregate remuneration recharged to the Syndicate by HCC Service Corporation (UK). These costs are included in net operating expenses.

	2015 £000	2014 £000
Aggregate emoluments	708	670
Pension contributions (Note 21)	23	22
	731	692

Included in aggregate emoluments above is £240,346 (2014: £157,096) for the services of the Active Underwriter. Pension contributions for the Active Underwriter totalled £7,995 (2014: £5,222). Pension benefits are accruing to 5 directors (2014: 5) under the Group's defined contribution scheme. The amounts in respect of the highest paid director are as follows:

	2015 £000	2014 £000
Aggregate emoluments	240	206
Pension contributions	8	-
	248	206

NOTES TO THE FINANCIAL STATEMENTS

10. INVESTMENT INCOME

	2015 £000	2014 £000
Investment income:		
Income from investments	1,374	2,230
Gains on the realisation of investments	221	387
	1,595	2,617
Investment expenses and charges:		
Investment management expense	(185)	(42)
Losses on the realisation of investments	(224)	(64)
	(409)	(106)
Net unrealised gains on investments:		
Unrealised gains on investments	-	352
Unrealised losses on investments	(1,841)	(2,102)
	(1,841)	(1,750)
Total investment return	(655)	761

The average amount of Syndicate funds available for investment and the investment yield by currency and in total are shown below. The average fund is the average of bank balances, overseas deposits and investments held on behalf of the capacity provider of the Syndicate at the end of each quarter during the year. For this purpose, investments are revalued at quarter-end market prices which includes accrued investment income.

	2015			2014		
	Return £000	Avg. Fund £000	Avg. Yield	Return £000	Avg. Fund £000	Avg. Yield
Australian dollars	405	16,700	2.4%	1,067	25,095	4.3%
Canadian dollars	57	7,970	0.7%	88	8,747	1.0%
Euros	(381)	4,149	(9.2)%	(374)	6,202	(6.0)%
Sterling	(951)	22,852	(4.2)%	(569)	26,698	(2.1)%
United States dollars	215	48,416	0.4%	549	42,104	1.3%
	(655)	100,087	(0.7)%	761	108,846	0.7%

11. OTHER FINANCIAL INVESTMENTS

	Fair value		Book cost	
	2015 £000	2014 £000	2015 £000	2014 £000
Shares and other variable yield securities and units in unit trusts	18,013	16,307	18,013	16,307
Debts securities and other fixed income securities	40,430	52,227	39,994	51,296
Overseas deposits as investments (see Note 14)	33,240	36,296	33,242	36,296
	91,683	104,830	91,249	103,899

Of the above, £40,429,677 (2014: £52,226,680) is listed on a recognised exchange.

12. DEBTORS ARISING OUT OF DIRECT INSURANCE OPERATIONS

	2015 £000	2014 £000
Due from intermediaries within one year	22,454	18,001

NOTES TO THE FINANCIAL STATEMENTS

13. OTHER DEBTORS

	2015 £000	2014 £000
Balance with group companies	-	4,406
Coinsurer	7	237
Other	902	892
	909	5,535

All amounts are due within one year. Amounts owed by group undertakings are short-term, unsecured, interest free and have no fixed date of repayment.

14. OVERSEAS DEPOSITS

Overseas deposits (see also Note 11) are lodged as a condition of conducting underwriting business in certain countries.

15. CLAIMS OUTSTANDING

	Reported £000	IBNR £000	Total £000
2015			
Gross claims	84,418	60,135	144,553
Reinsurance	(39,781)	(23,942)	(63,723)
Net claims	44,637	36,193	80,830
2014			
Gross claims	94,121	61,607	155,728
Reinsurance	(37,739)	(27,146)	(64,885)
Net claims	56,382	34,461	90,843

16. OTHER CREDITORS

	2015 £000	2014 £000
Balance with group companies	6,035	6,522

All amounts are due within one year. Amounts owed to group undertakings are short-term, unsecured, interest free and have no fixed date of repayment.

17. RECONCILIATION OF PROFIT BEFORE TAX TO NET CASH FLOWS FROM OPERATING ACTIVITIES

	2015 £000	2014 £000
Profit for the financial year	2,930	6,071
Investment return	655	(951)
Decrease in net technical provisions	(4,221)	(8,418)
Decrease/(increase) in debtors	2,818	(2,182)
(Increase)/decrease in prepayments and accrued income	(1,150)	487
(Decrease)/increase in creditors	(827)	2,315
Increase/(Decrease) in accruals and deferred income	301	(1,284)
Other movements – foreign currency loss on retranslation	254	(209)
Net cash inflow/(outflow) from operating activities	760	(4,171)

NOTES TO THE FINANCIAL STATEMENTS

18. RELATED PARTIES

a. The Syndicate's capital is provided by Nameco (No. 808) Limited (Nameco). Nameco's ultimate parent company is Tokio Marine Holdings, Inc. (TMHD). TMHD is incorporated in Japan and listed on the Tokyo Stock Exchange. The consolidated accounts of TMHD can be obtained from its website at http://www.tokiomarinehd.com/en/ir/library/annual_report/index.html.

b. The Syndicate incurred managing agency fees of £150,000 (2014: £150,000) from its Managing Agent, HCC Underwriting Agency Ltd (HCCUA). HCCUA is a wholly-owned subsidiary of HCC Intermediate Holdings Inc. An amount of £12,500 (2014: £37,503 due to) was due to HCCUA at the balance sheet date. In addition, £7,505,938 (2014: £7,562,881) was paid to HCC Service Company Inc. (UK branch) for expenses paid during the year on behalf of the Syndicate and an amount of £439,417 was due to (2014: £3,523,916 due to) HCC Service Company Inc. (UK branch) at the balance sheet date.

c. The Syndicate shares a reinsurance programme with the other HCC International carriers. Reinsurance premiums are pro-rated across HCC UK platforms according to their respective gross written premiums. Reinsurance recoveries are pro-rated based on the share of gross losses suffered by each carrier. The balance due to HCC International Insurance Company plc ('HCCII') was £1,880,696 (2014: £2,316,963 due to) at the balance sheet date.

d. Nameco (No. 808) Limited (Nameco) provides the entire capacity of Syndicate 4141. The immediate controller of Nameco is HCC Intermediate Holdings, Inc. and the ultimate controller is TMHD. An amount of £433,058 (2014: £197,650 due from) was due to Nameco at the balance sheet date.

e. The Syndicate transacts business with agencies that are owned by the HCC group. Full delegated underwriting authorities have been provided to the following HCC group entities: HCC Specialty Ltd, HCC Medical Insurance Services and HCC Global Financial Products SL. These arrangements have produced:

	2015 £000	2014 £000
Premium income	40,211	31,527
Commission expense	18,026	10,296
Balance due (from)/to the Syndicate at year end	(846)	4,314

f. The Syndicate transacts business with the following Tokio Marine entities: Lloyd's Syndicate 1880, Tokio Marine Seguradora, Tokio Millenium Re, Lloyd's Syndicate 0510 Kiln. These arrangements have produced:

	2015 £000	2014 £000
Gross premium written	147	-
Acquisition costs	48	-
Balance due to the Syndicate at year end	1,311	-

g. The following directors are also directors of HCCII, a wholly owned subsidiary of the HCC Group:
- S A Button
- B J Cook
- K J Cordier (resigned 30 June 2015)
- C Scarr (appointed 12 June 2015)
- H-D Rohlf
- T J G Hervy
- N I Hutton-Penman BSc, ACA
- K L Letsinger BSc, CPA
- N C Marsh
- J L T Newbegin (resigned 30 June 2015)
- W R Treen BSc, FIA

NOTES TO THE FINANCIAL STATEMENTS

19. FUNDS AT LLOYD'S

Every member is required to hold capital at Lloyd's which is held in trust and known as Funds at Lloyd's (FAL). These funds are intended primarily to cover circumstances where the Syndicate's assets prove insufficient to meet participating member's underwriting liabilities.

The level of FAL that Lloyd's requires a member to maintain is determined by Lloyd's based on Prudential Regulation Authority requirements and resource criteria. FAL has regard to a number of factors including the nature and amount of risk to be underwritten by the member and the assessment of the reserving risk in respect of business that has been underwritten. Since FAL is not under the management of the Managing Agent, no amount has been shown in these financial statements by way of such capital resources. However, the Managing Agent is able to make a call on the member's FAL to meet liquidity requirements or to settle losses.

20. CAPITAL COMMITMENT

There were no capital commitments contracted for but not provided for at 31 December 2015 (2014: £nil).

21. PENSION COMMITMENTS

The Group's international operations operate a Group Self Invested Personal Pension Scheme. The assets of the pension scheme are held separately from those of the Group's international operations in an independently administered fund. The pension cost charged to the Syndicate Profit and Loss Account for the year was £65,121 (2014: £68,014). The accrued pension cost outstanding as at 31 December 2015 was £nil (2014: £nil).

22. TRANSITION TO FRS 102

During the year, the Syndicate has made an amendment to its foreign exchange accounting policy to ensure compliance with FRS 102 Chapter 30 'foreign Currency Translation' with respect to:

- The allocation of foreign exchange gains / losses between the profit & loss account and the STRGL; and
- The use of monthly average rates as a proxy for transaction rates when determining the prevailing foreign exchange rate for the non-monetary assets and liabilities where these items are held at historical rates of exchange.

In addition, under FRS 102, DAC and UPR are treated as monetary assets and liabilities and are therefore translated into the functional currency at the closing rate and give rise to a foreign exchange profit or loss.

In accordance with FRS 102 section 3.12, the applicable comparative figures in the primary statements and notes have been restated to reflect the uniform application of the new policy outlined above.

The financial effect of restating the prior year amounts for the changes in accounting policy is as follows:

	2014 £000
Opening Member's balance at 1 January 2014 effect	-
Result for the year ended 31 December 2014 decreased	(399)
Statement of total comprehensive income increased	399
Closing Member's balance at 31 December 2014 effect	-