

Important information about Syndicate Reports and Accounts

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TOKIO MARINE
HCC

Annual Report and Financial Statements
Syndicate 4141

HCC Underwriting Agency Ltd.

Year ended 31 December 2016



ANNUAL REPORT AND FINANCIAL STATEMENTS

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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) H Ishii (Non-executive) (appointed 1 November 2016) K L Letsinger N C Marsh (Non-executive Chairman) H-D Rohlf (Non-executive) C Scarr (Non-executive) W R Treen (resigned 31 March 2016)
Syndicate:	Syndicate 4141
Active Underwriter:	S A Button
Company Secretary:	D R Feldman J L Holliday R L Hughes (resigned 29 July 2016)
Investment Manager:	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

The directors of the HCC Underwriting Agency Ltd. ('HCCUA'), the Managing Agent, present their Strategic Report and Directors' Report and the audited financial statements of Syndicate 4141 ('the Syndicate') for the year ended 31 December 2016 (the 'Annual Accounts').

The Annual Accounts have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice and The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ('the 2008 Regulations'), and are presented using the annual basis of accounting in accordance with Regulation 5 of the 2008 Regulation.

Strategic Report

Principal Activity

The Syndicate is managed by HCCUA which is authorised by the Prudential Regulation Authority ('PRA') and regulated by both the Financial Conduct Authority ('FCA') and the PRA. 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, AA- (Very Strong) rating from Fitch Ratings and A+ (Strong) from 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 2016, TMHD had total assets of YEN ¥22.1 trillion (2015: YEN ¥21.9 trillion) and shareholders' equity of YEN ¥3.4 trillion (2015: YEN ¥3.6 trillion).

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

TMHCC group underwriters write business for the Syndicate and other TMHCC group insurance operations based on prescribed rules that determine which TMHCC carrier is utilised. Licensing, distribution or client choices are the principle determinants of the platform utilised. Lines underwritten include Property Treaty, Property Direct and Facultative, Accident and Health, Energy and Marine, Professional Risks, Financial Lines, Credit and Political Risk, Contingency and Travel. 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 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 strategy is to underwrite profitable business through disciplined underwriting which includes careful risk selection and reinsurance purchasing in order to preserve Members' equity and risk adjusted return on capital. Underwriting is concentrated in selected, narrowly defined, lines of business where underwriting profit can be achieved. The Syndicate's experienced underwriting personnel with access to, and expertise in, the insurance and reinsurance marketplace has enabled the Syndicate to achieve its strategic objectives.

Overall premium growth has been maintained in a challenging market driven in particular by organic growth in Accident & Health, Credit and HCCMIS Travel business which has been supported by increased underwriting in Financial Lines, and Property Treaty. However, these areas of growth have been offset by the ongoing difficult rating environment for the Energy business with premium volumes continuing to decline as the excess capital in the market reduces profitable business being renewed and limited opportunities are arising to replace it. Over 80% of the Syndicate's gross written premium is US Dollar and the reported amounts have been impacted by the weaker pound in 2016 (£1 = \$1.35 average rate), 2015 (£1 = \$1.53). As a result, although gross written premium has increased £20.2 million (20.6%), the underlying growth excluding FX is 7.3% and more reflective of current market conditions.

REPORT OF THE DIRECTORS OF THE MANAGING AGENT

Business Review

Results and Performance

The Syndicate made a profit for the financial year of £4.4m (2015: £2.9m). The balance on the technical account totalled £1.8m (2015: £4.9m) and reflects a combined ratio, excluding investment return, of 96.9% in 2016 (2015: 92.4%).

The 2016 result included a 5.6% increase in the net loss ratio. Of this, 6.3% was from large catastrophes losses totalling £5.8m (2015: nil), comprising Canadian Wildfires and Hurricane Mathew. Offsetting this was 6.4% (2015: 3.3%) of prior year reserve releases totalling £5.9m (2015: £2.5m).

Investment return was £0.3m lower in 2016 at £1.0m loss (2015: £0.7m loss), largely due to unrealised losses of £1.8m (2015: £1.8m losses) and reflective of investment market conditions principally in the fourth quarter as the result of the outcome of the US elections. Foreign Exchange income totalled £2.6m (2015: £2.1m loss).

The pound average exchange rate weakened in 2016 to £1 = 1.35 (2015: 1.53) and to €1 = 1.10 (2015: 1.11).

Key Performance Indicators (KPIs)

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

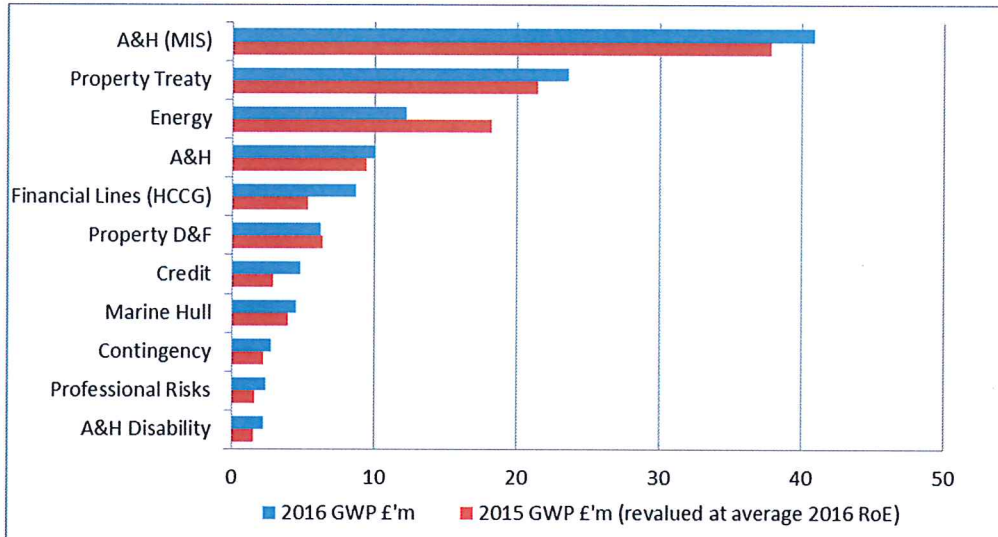
	2016	2015
	£m	£m
Cash and investments	140.9	94.9
Gross written premiums	118.1	97.9
Underwriting profit (excl. investment return)	1.8	5.0
Profit for the financial year	4.4	2.9
Net loss ratio	51.2%	45.6%
Combined ratio (excl. investment return)	96.9%	92.4%
Investment return	(1.0)	(0.7)

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

REPORT OF THE DIRECTORS OF THE MANAGING AGENT

Gross Written Premiums

The following bar chart shows 2016 gross written premiums for the Syndicate's principal lines of business compared to 2015 translated at the 2016 average rate of exchange from US dollar functional currency:



Gross written premium totalled £118.1m compared to £97.9m in 2015. The £20.1m increase in premium includes a £13.1m increase due to foreign exchange. The remaining £7.1m increase is principally attributable to: £3.5m from growth in A&H MIS; £3.3m from positive initiatives in Financial Lines; £1.9m from Credit business that began underwriting in mid-2015; and £2.1m from Property Treaty where a revised focus and the acquisition of several new significant relationships have developed business in a difficult market. These initiatives offset a £6.1m reduction in the Energy business where volumes have fallen in a difficult and prolonged low oil price market and lower drilling activity which have resulted in higher than expected declinatures and non-renewal of business largely in the Energy sector. The rating environment for London Market Property products has remained challenging during 2016 and this is expected to continue in 2017. Marine premium was consistent with the prior year and, following the recruitment of a new underwriter, is expected to grow in the future.

The largest line of business written by the Syndicate continues to be Accident and Health (MIS), followed by Property Treaty and Energy. The Accident and Health premium is comprised principally of Travel Medical business written on behalf of the Syndicate by HCCMIS, based in Indiana, USA. This niche produce sold to travellers around the world via the internet has continued to grow organically in 2016.

Business Line Synopsis

Accident and Health

Accident and Health, is comprised principally of the Travel Medical business written by MIS Travel Medical which accounted for £2.8m of the £3.5m growth in the year. The overall environment for our Accident and Health portfolio is very competitive with plentiful capacity in many of the markets the Syndicate operates 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 and student specific health plans, sold via the internet, continue to generate growth from expanded distribution of the product.

Property Treaty

Property Treaty premium written in 2016 increased by £2.1m despite the challenging 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. The Syndicate has attracted a number of significant new accounts during the year, validating the disciplined approach and going some way to alleviate the market pressure on rates and terms

REPORT OF THE DIRECTORS OF THE MANAGING AGENT

and conditions. The continued increasing capacity in the reinsurance market, contributed to by the influx of collateralised markets, contribute to the overall difficult market conditions.

Marine and Energy

Marine and Energy premium decreased in 2016 by £5.6m and has been driven by the Energy market conditions mentioned above. This has been offset somewhat by a small increase in Marine business benefiting from the recruitment of a new Marine underwriter during the second half of the year.

Other Lines

Other Lines is comprised of London Market Property Direct and Facultative, Contingency, Financial Lines, Credit and Political Risk, and Professional Risks business. The Financial Lines D&O book has developed strongly as a result of group initiatives based on the reach of Lloyd's licenses in countries including Canada and Australia. The Credit and Political Risk business the Syndicate began writing in 2015 has developed well and is £1.9m higher than last year. The Syndicate remains conservative in the underwriting of these lines.

Reinsurance

Reinsurance to cover catastrophe exposed lines is purchased by line of business 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 PRA. In addition, the Syndicate purchases quota share and facultative reinsurance to balance line size and premium where it is prudent to do so.

Future Outlook

The Syndicate continues to consider profitable opportunities in complimentary and new lines of business, through expansion of teams, venturing into new territories and potential acquisitions, including utilising the global network of offices provided by Tokio Marine group companies.

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
T J G Hervy
N I Hutton-Penman (Chief Executive Officer)
H Ishii (Non-executive) (appointed 1 November 2016)
K L Letsinger
N C Marsh (Non-executive Chairman)
H-D Rohlf (Non-executive)
C Scarr (Non-executive)
W R Treen (resigned 31 March 2016)

Directors' Interests

No director participated in the Syndicate.

REPORT OF THE DIRECTORS OF THE MANAGING AGENT

Financial Information on HCC Underwriting Agency Ltd.

Summary financial income of the Syndicate's Managing Agent, HCCUA, is set out below:

	2016	2015
	£'000	£'000
	(unaudited)	
Managed capacity	150,000	120,000
Fee income	150	150
Commission income	339	-
Expenses net of recharges	(53)	(100)
Other expense	(9)	(6)
Profit before tax	427	44
Net assets	1,366	1,024

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.

The Syndicate maintains funds in US Dollars, Sterling, 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 PRA.

New England Asset Management Ltd is the Investment Manager for the non-Lloyds controlled regulated funds and unregulated funds. 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 2.08 years (2015: 2.35 years).

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 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.

REPORT OF THE DIRECTORS OF THE MANAGING AGENT

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

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

At the date of approval of these Annual Accounts, none of the directors of the Managing Agent are aware of any 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 Managing Agent, each director has taken all the steps they are obliged to take as a director to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

Independent Auditors

PricewaterhouseCoopers LLP have expressed their willingness to continue in office as the Syndicate's auditors.

Annual General Meeting

The directors do not propose to hold a Syndicate Annual General Meeting during 2016, 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 2017

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SYNDICATE 4141

Report on the Syndicate Financial Statements

Our Opinion

In our opinion, Syndicate 4141's financial statements (the "syndicate financial statements"):

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2016 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 financial statements for the year ended 31 December 2016, included within the Annual Report and Financial Statements (the "Annual Report"), comprise:

- the profit and loss account for the year ended 31 December 2016;
- and statement of comprehensive income for the year ended 31 December 2016;
- the balance sheet as at 31 December 2016;
- the statement of changes in members' balances;
- the statement of cash flows;
- the notes to the syndicate financial statements, 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 financial information 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 Report of the directors of the managing agent for the financial year for which the Syndicate Financial Statements are prepared is consistent with the Syndicate Financial Statements.

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 financial statements are not in agreement with the accounting records.

We have no exceptions to report arising from this responsibility.

Responsibilities for the syndicate financial statements 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 financial statements and for being satisfied that they give a true and fair view.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SYNDICATE 4141

Our responsibility is to audit and express an opinion on the syndicate financial statements 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.

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 financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the syndicate financial statements sufficient to give reasonable assurance that the syndicate financial statements 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 financial statements.

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 financial statements.

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 financial statements 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 2017



**PROFIT AND LOSS ACCOUNT:
TECHNICAL ACCOUNT – GENERAL BUSINESS**
for the year ended 31 December 2016

	Note	2016	2015
		£'000	£'000
Earned premiums, net of reinsurance			
Gross premiums written	6	118,070	97,895
Outward reinsurance premiums		(22,669)	(18,445)
Net premiums written		<u>95,401</u>	<u>79,450</u>
Change in the provision for unearned premiums			
Gross amount		(2,599)	(5,783)
Reinsurers' share		(491)	1,096
Change in the net provision for unearned premiums		<u>(3,090)</u>	<u>(4,687)</u>
Earned premiums, net of reinsurance		92,311	74,763
Investment return transferred from the non-technical account		(1,030)	(655)
Claims incurred, net of reinsurance			
Claims paid			
Gross amount		(76,225)	(58,511)
Reinsurers' share		26,158	13,375
Net claims paid		<u>(50,067)</u>	<u>(45,136)</u>
Change in the provision for claims			
Gross amount		11,487	13,801
Reinsurers' share		(8,695)	(2,779)
Change in the net provision for claims		<u>2,792</u>	<u>11,022</u>
Claims incurred, net of reinsurance	7	(47,275)	(34,114)
Net operating expenses	8	(42,216)	(35,004)
Balance on the technical account for general business		<u>1,790</u>	<u>4,990</u>

All amounts relate to continuing operations.

**PROFIT AND LOSS ACCOUNT:
NON-TECHNICAL ACCOUNT**
for the year ended 31 December 2016

	Note	2016 £'000	2015 £'000
Balance on the general business technical account		1,790	4,990
Investment income	10	1,506	1,595
Unrealised gains on investments	10	186	-
Investment expenses and charges	10	(950)	(409)
Unrealised losses on investments	10	(1,772)	(1,841)
Investment return transferred to general business technical account		1,030	655
Other income/(charges), including value adjustments		2,626	(2,060)
Profit for the financial year		<u>4,416</u>	<u>2,930</u>

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2016

	2016 £'000	2015 £'000
Profit for the financial year	4,416	2,930
Foreign currency exchange profit on translation	747	113
Total recognised gains	<u>5,163</u>	<u>3,043</u>

BALANCE SHEET

as at 31 December 2016

	Note	2016 £'000	2015 £'000
ASSETS			
Investments			
Other financial investments	11	135,326	91,683
Reinsurers' share of technical provisions			
Provision for unearned premiums		6,351	5,663
Claims outstanding	12	<u>64,144</u>	<u>63,723</u>
		70,495	69,386
Debtors			
Debtors arising out of direct insurance operations	13	27,876	22,454
Debtors arising out of reinsurance operations		9,403	2,907
Other debtors	14	<u>2,799</u>	<u>909</u>
		40,078	26,270
Other assets			
Cash at bank and in hand		5,586	3,246
Overseas deposits	15	<u>-</u>	<u>64</u>
		5,586	3,310
Prepayments and accrued income			
Accrued interest		522	512
Deferred acquisition costs		10,179	8,388
Other prepayments and accrued income		<u>-</u>	<u>3</u>
		10,701	8,903
Total assets		<u><u>262,186</u></u>	<u><u>199,552</u></u>

BALANCE SHEET

as at 31 December 2016

	Note	2016 £'000	2015 £'000
LIABILITIES			
Members' balance		6,716	6,961
Technical provisions			
Provision for unearned premiums		40,970	31,503
Claims outstanding	12	<u>155,088</u>	<u>144,553</u>
		196,058	176,056
Creditors			
Creditors arising out of direct insurance operations		1,543	1,177
Creditors arising out of reinsurance operations		8,330	7,867
Other creditors including taxation and social security	16	<u>48,079</u>	<u>6,035</u>
		57,952	15,079
Accruals and deferred Income		1,460	1,456
Total liabilities		<u><u>262,186</u></u>	<u><u>199,552</u></u>

The financial statements on pages 12 to 42 were approved by the Board of HCC Underwriting Agency Ltd. and signed on its behalf by

K L Letsinger
Director
15 March 2017

STATEMENTS OF CHANGES IN MEMBERS' BALANCE AND CASH FLOWS

for the year ended 31 December 2016

STATEMENT OF CHANGES IN MEMBERS' BALANCE	2016	2015
	£'000	£'000
Members' balance brought forward at 1 January	6,961	18,602
Profit for the financial year	4,416	2,930
Foreign currency exchange (loss)/profit on retranslation	747	113
(Profit)/loss distribution	(5,408)	(14,684)
Members' balance carried forward at 31 December	<u>6,716</u>	<u>6,961</u>

STATEMENT OF CASH FLOWS		2016	2015
	Note	£'000	£'000
Net cash inflow from operating activities	17	31,345	760
Investing:			
Purchase of debt securities		(55,819)	(12,392)
Sale of debt securities		28,795	23,444
Investment income received (including FX)		2,685	1,065
Financing:			
Profit distribution		(5,408)	(14,684)
Net cash inflow/(outflow)		<u>1,598</u>	<u>(1,807)</u>
Cash and cash equivalents at beginning of year		3,310	4,883
Foreign exchange profit on translation of brought forward balances		678	234
Cash and cash equivalents at end of year		<u>5,586</u>	<u>3,310</u>

Cash and cash equivalents consist of:	2016	2015
	£'000	£'000
Cash at bank and in hand	5,586	3,246
Short term deposits with credit institutions	-	64
	<u>5,586</u>	<u>3,310</u>

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Syndicate 4141 ('the Syndicate') is a fully aligned syndicate managed by HCCUA which is authorised by the PRA and regulated by both the FCA and the PRA. 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.

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.

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 FRS 102 and FRS 103.

The preparation of financial statements in conformity with FRS 102 and FRS 103 requires the use of certain critical accounting estimates. It also requires management to exercise its 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 restated to conform to changes in accounting policies and presentation in the current year, see Note 3h – Financial instruments, and 5.5 – Financial Investments, pricing basis.

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 and the presentation currency is Sterling. Foreign currency transactions are recorded using the spot exchange rates at the dates of the transactions into the functional currency. At each period end, foreign currency monetary assets and liabilities are revalued 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.

Differences arising on the revaluation of foreign currency amounts to the functional currency are recognised in the non-technical profit and loss account.

The foreign currency exchange arising upon translation from functional currency to presentational currency is recognised in other comprehensive income.



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The foreign exchange rates used for translation to the presentation currency are set out below:

- a) assets and liabilities at the closing rate at the balance sheet date which for Sterling was £1 = US\$1.2305 (2015: US\$1.4826); and
- b) income and expenses at monthly rates during the year. The average rate for the year for Sterling was £1 = US\$1.35 (2015: US\$1.53).

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 often may not be apparent to the insured until many years after the event giving rise to the claim 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

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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 and 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 or lines with unbalanced line size to premium is purchased on a shared basis for the international insurance entities. Reinsurance premiums on excess of loss programmes are allocated across TMHCC 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.

The reinsurers' share of claims incurred in the profit and loss account reflects the amounts received or receivable from reinsurers in respect of those claims incurred during the year. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised in the Profit and Loss Account as "outwards reinsurance premiums".

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'.

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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 ('Nameco'). 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.

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 adopted FRS 102 relating to fair value hierarchy disclosures and applied 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; and
- Deposits with credit institutions - loans and receivables.

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

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Financial assets designated 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 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 rate 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, 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.

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, then 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.

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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 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 and then transferred to the Technical Account.

m. Distributions to Member

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

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

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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 £90.9m (2015: £80.8m), see Note 12 for net claims outstanding. There are several areas 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 5.1.iv for loss development triangles.

ii. Fair value of financial instruments

The fair value of financial instruments traded in active markets is based on quoted bid prices at the balance sheet date.

If quoted prices are readily unavailable, observable prices for recent arm's length transactions for an identical asset are used to determine its fair value. The carrying value of these instruments is £115.1m (2015: £56.8m), see Note 5.5 for pricing basis. 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 £22.2m (2015: £14.6m).

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 six areas: insurance; Strategic, Regulatory and Group; Market; Operational; Credit and Liquidity. The sections below outline the Syndicate's risk appetite and explain how it defines and manages each category of risk.

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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 including delegated authorities, reinsurance purchasing, claims management and reserving. Each element is considered below.

i. 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.

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 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 ('PML') 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.

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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 has several facets: i) The PML aggregates must be no more than a certain amount of Capital (200% on a gross basis, 50% on a net basis); ii) Based on the Syndicate's Internal Model, the probability of a gross catastrophe event exceeding 50% of Capital must be less than 1%; and iii) Again based on the Syndicate's Internal Model, the modelled 1 in 1000 year net catastrophe event must be less than 50% of Capital. During 2016, the directors also set specific risk appetites for Cyber exposures, as follows: i) Largest net Cyber PML scenario must be less than 25% of Capital; and ii) Based on the Syndicate's Internal Model, the modelled 1 in 1000 year net Cyber event must be less than 50% of Capital. Additionally, the appetite for non-modelled risk and other potential non-natural catastrophe perils is in line with the catastrophe appetites noted above.

ii. 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. Prior to placement of the programme, it is modelled against significant historic and modelled events across the peak exposure areas. The programme is purchased on a class of business basis, modelling catastrophe, large and attritional losses separately.

Consideration is given to a number of factors when setting minimum retention including the Annual Aggregate Loss ('AAL') for catastrophe exposed lines. Where market opportunity allows, additional reinsurance is purchased. Quota share and facultative reinsurance is also utilised where considered appropriate. The TMHCC Security Committee 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.

iii. 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 claim 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

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liabilities, including provisions for expenses, as soon as a reliable estimate can be made of the claims liability.

iv. 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 on a 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 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 best 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 including back testing, scenario testing, sensitivity testing and stress testing. 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 2016 foreign exchange rates throughout the triangle.

Loss development triangles - GROSS	Underwriting year (pure YOA)						TOTAL
	2011	2012	2013	2014	2015	2016	
Ultimate claims and cumulative payments	£'000	£'000	£'000	£'000	£'000	£'000	£'000
End of reporting year	52,948	30,005	29,648	32,434	36,459	34,943	
- one year later	105,758	62,120	57,831	50,537	71,037		
- two years later	107,327	61,005	69,762	48,556			
- three years later	104,868	56,741	65,522				
- four years later	100,152	66,632					
- five years later	100,759						
Current estimate of ultimate claims	100,759	66,632	65,522	48,556	71,037	34,943	
Cumulative payments to date	(86,885)	(58,136)	(47,664)	(40,298)	(37,945)	(8,571)	
Liability recognised in the balance sheet	13,874	8,496	17,858	8,258	33,092	26,372	107,950
Provision in respect of previous years							47,138
Total provision included in the balance sheet							155,088

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Loss development triangles - NET	Underwriting year (pure YOA)						TOTAL
	2011	2012	2013	2014	2015	2016	
Ultimate claims and cumulative payments	£'000	£'000	£'000	£'000	£'000	£'000	£'000
End of reporting year	44,516	23,801	24,580	30,523	27,457	33,020	
- one year later	82,438	42,008	45,339	46,197	53,182		
- two years later	84,170	42,845	48,496	43,710			
- three years later	80,449	41,416	44,704				
- four years later	76,032	41,694					
- five years later	76,801						
Current estimate of ultimate claims	76,801	41,694	44,704	43,710	53,182	33,020	
Cumulative payments to date	(65,057)	(37,164)	(37,694)	(38,460)	(32,692)	(8,439)	
Liability recognised in the balance sheet	11,744	4,530	7,010	5,250	20,490	24,581	73,605
Provision in respect of previous years							17,339
Total provision included in the balance sheet							90,944

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

5.2 Strategic, regulatory and group risk

The Syndicate manages strategic, regulatory and group risk together. Each element is considered below.

i. Strategic risk

This is the risk that the Syndicate's strategy is inappropriate or that the Syndicate is unable to implement its strategy. Where an event exceeds 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 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.

ii. Regulatory risk

Regulatory 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. Regulatory risk includes capital management risk.

The Syndicate must comply with Lloyd's capital setting requirements. Lloyd's applies capital requirements (which meet regulatory and rating agency requirements) at member level and centrally. Accordingly the capital requirement in respect of Syndicate 4141 is not disclosed in these financial statements.

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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 members' capital requirement, known as the Economic Capital Assessment ('ECA'). The purpose of this uplift, which is a Lloyd's rather than Solvency II requirement, is to meet Lloyd's financial strength requirements for licencing and ratings objectives. The capital uplift applied for 2017 was 35% (2016: 35%) of the members' SCR 'to ultimate'. For the 2017 year of account, Nameco provides the capital to meet its ECA by way of a bank letter of credit deposited with Lloyd's (i.e. Funds at Lloyd's).

iii. Group risk

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

a) Contagion

Contagion risk is the risk arising from actions of one part of a 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.

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. The Syndicate's preference is to minimise reputation risks but, it is not possible or beneficial to avoid them, as the benefits of being part of the group brand are significant.

We consider reputation risk as an impact on all risk events in the Risk Register, but not as a risk in its own right.

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, reviewed annually by the directors as part of the overall risk budgeting framework of the business. In 2016, the investment risk budget was maintained 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). The investment risk budget will be at a similar level in 2017.

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. This is supplemented by bespoke analysis from our investment consultants. Internal model output is used to assess potential investment downsides, at different confidence levels, including

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'1 in 200' year event, 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.

i. Foreign exchange risk

The Syndicate's functional currency is the US Dollar and the reporting currency is Sterling. The effect of this on foreign exchange risk is that the Syndicate's profit for the financial year is mainly exposed to fluctuations in exchange rates for non-US dollar denominated transactions upon revaluation of assets and liabilities. Also the US dollar functional currency is translated to Sterling reporting currency and any Foreign Exchange gains or losses are recognised in Statement of Comprehensive Income. Although net assets in the balance sheet are relatively small, comprising Members' 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 matched.

The Syndicate operates in five main currencies: US Dollars; Sterling; 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 at the US Dollar spot rate.

In 2016, the Syndicate managed its foreign exchange risk by periodically assessing its non-US Dollar exposures and rebalancing where appropriate.

Sensitivity analysis

Fluctuations in the Syndicate's operating currencies against US dollar 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 US dollar against the value of the non-US dollar denominated transactions.

FX risk exposure - sensitivity	Impact on profit/(loss) for the financial year		Impact on net assets	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Change in exchange rate of Canadian dollar, Australian dollar, Euro and Sterling, relative to US dollar				
US dollar weakens 30% against other currencies	2,238	1,530	(9,109)	(1,398)
US dollar weakens 20% against other currencies	1,492	1,020	(6,073)	(932)
US dollar weakens 10% against other currencies	746	510	(3,036)	(466)
US dollar strengthens 10% against other currencies	(746)	(510)	3,036	466
US dollar strengthens 20% against other currencies	(1,492)	(1,020)	6,073	932
US dollar strengthens 30% against other currencies	(2,238)	(1,530)	9,109	1,398

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ii. 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.

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	<1 yr	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	5-10 yrs	>10 yrs	Total
31 December 2016	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Shares and other variable yield securities	63,578	-	-	-	-	-	-	63,578
Debt Securities	10,553	7,466	6,417	5,044	1,854	797	-	32,131
Overseas deposits	39,617	-	-	-	-	-	-	39,617
Total other financial investments	113,748	7,466	6,417	5,044	1,854	797	-	135,326
Overseas deposits in other assets	-	-	-	-	-	-	-	-
Cash at bank	5,586	-	-	-	-	-	-	5,586
Total	119,334	7,466	6,417	5,044	1,854	797	-	140,912

Investments and cash -								
Duration	<1 yr	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	5-10 yrs	>10 yrs	Total
31 December 2015	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'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

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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	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Shift in yield (basis points)				
100 basis point increase	(666)	(1,030)	(666)	(1,030)
50 basis point increase	(333)	(515)	(333)	(515)
50 basis point decrease	335	413	335	413
100 basis point decrease	670	826	670	826

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 and minimises operational risks where appropriate. This is achieved by implementing and communicating guidelines and detailed procedures and controls to staff and other third parties. The Syndicate regularly monitors the performance of its controls and adherence to procedures 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.

Addressing Conduct Risk has always been treated as a priority irrespective of the regulatory emphasis on the selling of financial products, including insurance products, to consumers. The Syndicate's primary objective is that all policyholders should receive fair treatment throughout the product lifecycle, which requires the effective management of Conduct Risk. However, Conduct Risk is not limited to the fair treatment of customers and the Conduct Risk Policy broadly defines Conduct Risk as "...the risk that detriment is caused to the company, our customers, clients or counterparties because of the inappropriate execution of our business activities."

As a result business activities are conducted in a manner that is not only fair, honest and transparent but that also complies fully with applicable UK and International laws and regulations and internal policies and procedures. This is clearly communicated from the Board of HCCUA Ltd directors downwards to all members of staff and oversight is provided throughout the governance structure, primarily by way of the Product Governance and Distribution Committee. Day-to-day responsibility for monitoring the fair treatment of customers and broader aspects of Conduct Risk resides with the International Compliance Department which undertakes scheduled reviews as part of a comprehensive Compliance Monitoring schedule.

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;

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- 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 insurance risk and the appetite for other risks is low. This protects the Syndicate's solvency from erosion from non-insurance risks 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 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 to ensure credit risk relating to the investment portfolio is kept to a minimum. 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, 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:

Investment and cash - credit ratings	AAA	AA	A	BBB	<BBB	Not rated	Total
31 December 2016	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Shares and variable yield securities	12,478	46,260	4,840	-	-	-	63,578
Debt security	2,541	11,653	12,378	5,559	-	-	32,131
Overseas deposits	29,134	4,497	2,997	2,177	-	812	39,617
Total other financial investments	44,153	62,410	20,215	7,736	-	812	135,326
Reinsurers' share of claims outstanding	-	38,199	27,129	-	-	(1,184)	64,144
Overseas Deposits in other Assets	-	-	-	-	-	-	-
Cash at bank	-	-	-	5,586	-	-	5,586
Total	44,153	100,609	47,344	13,322	-	(372)	205,056

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Investment and cash - credit ratings							
31 December 2015	AAA	AA	A	BBB	<BBB	Not rated	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Shares and variable yield securities	8,243	9,770	-	-	-	-	18,013
Debt security	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 in other Assets	-	-	-	-	-	64	64
Cash at bank	-	-	-	3,246	-	-	3,246
Total	36,609	63,632	48,300	10,087	19	69	158,716

The Syndicate's largest counterparty exposure is £5.9m of US Treasuries (2015: £4.9m).

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 – aging 31 December 2016	Not yet due	Up to 3 months past due	3 to 6 months past due	7 to 12 months past due	> 1 year past due	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Reinsurers share of claims outstanding	64,144	-	-	-	-	64,144
Insurance debtors	24,103	2,535	691	515	32	27,876
Reinsurance debtors	-	6,900	1,896	48	559	9,403
Other debtors	2,799	-	-	-	-	2,799
Total	91,046	9,435	2,587	563	591	104,222

Financial assets – aging 31 December 2015	Not yet due	Up to 3 months past due	3 to 6 months past due	7 to 12 months past due	> 1 year past due	Total
	£'000	£'000	£'000	£'000	£'000	£'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

Fair value estimation

The following table presents the Syndicate's financial investments measured at fair value at 31 December 2016 and 31 December 2015 categorized into levels 1, 2 and 3, reflecting the categorisation criteria specified in FRED 62. The comparative amounts as at 31 December 2015 as shown in the table below have been restated to reflect the adoption of FRED 62 which was not yet effective when previous report was issued. The effect of the restatements was to reallocate amounts from Level C (pre-FRS 102) to Level 2. No liabilities were measured at fair value at 31 December 2016 or 31 December 2015.

NOTES TO THE FINANCIAL STATEMENTS

Financial investments – pricing basis	Level 1	Level 2	Level 3	Total
31 December 2016	£'000	£'000	£'000	£'000
Shares and other variable yield securities	-	63,578	-	63,578
Debt securities	5,874	26,257	-	32,131
Overseas deposits	14,333	25,284	-	39,617
Other financial investments	20,207	115,119	-	135,326
Overseas deposits in other assets	-	-	-	-
Total	20,207	115,119	-	135,326

Financial investments – pricing basis	Level 1	Level 2	Level 3	Total
Restated	£'000	£'000	£'000	£'000
31 December 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	56,781	-	91,683
Overseas deposits in other assets	-	64	-	64
Total	34,902	56,845	-	91,747

New UK GAAP defines the disclosure of investments levels as follows:

Level 1 – 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 2 – recent transactions in an identical asset if there is unavailability of quoted prices.

These comprise 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. The Syndicate has chosen to classify all securities other than Sovereign and overseas deposits as Level 2 securities; and

Level 3 – use of a valuation technique where 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. The Syndicate does not hold any Level 3 securities.

No markets for investments were judged to be inactive at year end and as a result there were not adjustments to the prices or quotes provided by the independent pricing services, third party investment managers as of 31 December 2016 or 31 December 2015.

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5.6 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 (see Note 5.1.i). This means that the Syndicate maintains sufficient liquid assets, or assets that can be readily converted into liquid assets at short notice, 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 2016 and 2015:

Financial liabilities – projected cash flows 31 December 2016	Within 1 year £'000	1-3 years £'000	3-5 years £'000	>5 years £'000	Total £'000
Net claims outstanding	50,123	26,530	8,861	5,430	90,944
Creditors from direct insurance operations	1,543	-	-	-	1,543
Creditors from reinsurance operations	8,330	-	-	-	8,330
Other creditors	48,079	-	-	-	48,079
Total	108,075	26,530	8,861	5,430	148,896

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

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 2016	Within 1 year £'000	1-3 years £'000	3-5 years £'000	>5 years £'000	Total £'000
Shares and other variable yield securities	63,578	-	-	-	63,578
Debt security	10,504	13,701	4,280	3,646	32,131
Overseas Deposits	39,617	-	-	-	39,617
Total other financial investments	113,699	13,701	4,280	3,646	135,326
Overseas Deposits	-	-	-	-	-
Cash at bank	5,586	-	-	-	5,586
Total	119,285	13,701	4,280	3,646	140,912

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Investments and cash - maturity	Within				Total
	1 year	1-3 years	3-4 yrs	>5 years	
31 December 2015	£'000	£'000	£'000	£'000	£'000
Shares and other variable yield securities	18,013	-	-	-	18,013
Debt security	6,110	19,764	8,672	5,884	40,430
Overseas deposits	33,240	-	-	-	33,240
Total other financial investments	57,363	19,764	8,672	5,884	91,683
Overseas Deposits	64	-	-	-	64
Cash at bank	3,246	-	-	-	3,246
Total	60,673	19,764	8,672	5,884	94,993

6. SEGMENTAL ANALYSIS

An analysis of the underwriting result is set out below:

	Gross premiums written	Gross premiums earned	Gross claims incurred	Gross operating expenses	Reinsurance balance	Net Underwriting result
2016	£'000	£'000	£'000	£'000	£'000	£'000
Direct insurance:						
Accident and health	46,209	45,603	(20,016)	(23,274)	(216)	2,097
Marine aviation and transport	9,181	7,984	(5,384)	(3,010)	(2,196)	(2,606)
Fire and other damage to property	6,760	9,447	(13,967)	(1,876)	1,622	(4,774)
Third party liability	10,722	8,486	(8,342)	(2,310)	6,556	4,390
Miscellaneous	9,233	8,282	(4,685)	(2,478)	(2,359)	(1,240)
Total direct	82,105	79,802	(52,394)	(32,948)	3,407	(2,133)
Reinsurance assumed	35,965	35,669	(12,344)	(9,268)	(9,104)	4,953
Total	118,070	115,471	(64,738)	(42,216)	(5,697)	2,820
Investment return						(1,030)
Technical account						1,790

NOTES TO THE FINANCIAL STATEMENTS

	Gross premiums written	Gross premiums earned	Gross claims incurred	Gross operating expenses	Reinsurance balance (Restated)	Net Underwriting result
2015	£'000	£'000	£'000	£'000	£'000	£'000
Direct insurance:						
Accident and health	36,982	36,849	(16,167)	(20,198)	(274)	210
Marine aviation and transport	7,040	6,338	(3,059)	(2,386)	(839)	54
Fire and other damage to property	10,269	8,262	(10,451)	(1,551)	10,728	6,988
Third party liability	5,052	4,558	316	(1,132)	(3,572)	170
Miscellaneous	5,778	4,196	(1,830)	(1,014)	(1,526)	(174)
Total direct	65,121	60,203	(31,191)	(26,281)	4,517	7,248
Reinsurance assumed	32,774	31,909	(13,519)	(8,723)	(11,270)	(1,603)
Total	97,895	92,112	(44,710)	(35,004)	(6,753)	5,645
Investment return						(655)
Technical account						4,990

The reinsurance balance represents the (charge)/credit to the technical account from the aggregate of all items relating to reinsurance outwards. All premiums were concluded in the UK.

The geographical analysis of gross premiums written by destination is:

	2016 £'000	2015 £'000
UK	18,762	16,305
Other EU countries	3,024	4,253
Rest of the world	96,284	77,337
Total	118,070	97,895

7. MOVEMENT IN PRIOR YEARS' PROVISION FOR CLAIMS OUTSTANDING

Net claims incurred include prior year reserve releases totalling £5.9m (2015: £1.6m release).

8. NET OPERATING EXPENSES

	2016 £'000	2015 £'000
Acquisition costs	32,708	28,835
Change in deferred acquisition costs	(71)	(1,138)
Reinsurers' commissions and profit participation	(2,164)	(1,751)
Administrative expenses (see analysis below)	11,743	9,058
	42,216	35,004

NOTES TO THE FINANCIAL STATEMENTS

	2016	2015
	£'000	£'000
Administrative expenses:		
Wages and salaries	1,162	860
Social security costs	163	205
Other pension costs	70	65
Total staff costs	1,395	1,130
Syndicate auditors' remuneration – audit services	251	225
Syndicate auditors' remuneration – other assurance services	120	117
Personal expenses	800	1,037
Other expenses	9,177	6,549
	11,743	9,058

Total commissions for direct insurance amounted to £19.1m (2015: £15.2m).

The average number of direct underwriting staff (excluding directors) working for the Syndicate during the year was nine (2015: seven).

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 staffs 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 staffs provide services.

9. DIRECTORS' EMOLUMENTS

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

	2016	2015
	£'000	£'000
Aggregate emoluments	1,093	708
Pension contributions (Note 20)	10	23
	1,103	731

Included in aggregate emoluments above is £300,606 (2015: £240,346) for the services of the Active Underwriter. Pension contributions for the Active Underwriter totalled £2,439 (2015: £7,995). Pension benefits are accruing to four directors (2015: five) under the Group's defined contribution scheme.

The amounts in respect of the highest paid director are as follows:

	2016	2015
	£'000	£'000
Aggregate emoluments	365	240
Pension contributions	-	8
	365	248

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10. INVESTMENT INCOME

	2016 £'000	2015 £'000
Investment income:		
Income from financial investments at fair value through profit or loss	1,503	1,374
Gains on the realisation of financial investments at fair value through profit or loss	3	221
	<u>1,506</u>	<u>1,595</u>
Investment expenses and charges:		
Investment management expense	(174)	(185)
Losses on the realisation of financial investments at fair value through profit or loss	(776)	(224)
	<u>(950)</u>	<u>(409)</u>
Net unrealised losses on investments:		
Unrealised gains on financial investments at fair value through profit or loss	186	-
Unrealised losses on financial investments at fair value through profit or loss	(1,772)	(1,841)
	<u>(1,586)</u>	<u>(1,841)</u>
Total investment return	<u>(1,030)</u>	<u>(655)</u>

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 include accrued investment income.

	2016			2015		
	Return £'000	Avg Fund £'000	Avg Yield %	Return £'000	Avg Fund £'000	Avg Yield %
Australian Dollars	420	12,331	3.4%	405	16,700	2.4%
Canadian Dollars	158	23,865	0.7%	57	7,970	0.7%
Euros	(44)	5,252	(0.8)%	(381)	4,149	(9.2)%
Sterling	(1,938)	18,939	(10.2)%	(951)	22,852	(4.2)%
United States Dollars	374	55,608	0.7%	215	48,416	0.4%
	<u>(1,030)</u>	<u>115,995</u>	<u>(0.9)%</u>	<u>(655)</u>	<u>100,087</u>	<u>(0.7)%</u>

11. OTHER FINANCIAL INVESTMENTS

	Fair value		Book cost	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Shares and other variable yield securities and units in unit trusts	63,578	18,013	63,578	18,013
Debts securities and other fixed income securities	32,131	40,430	35,256	39,994
Overseas deposits as investments (see Note 15)	39,617	33,240	39,617	33,242
	<u>135,326</u>	<u>91,683</u>	<u>138,451</u>	<u>91,249</u>

Of the above, £20.2m (2015: £34.9m) is listed on a recognised exchange (see note 5.5).

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12. CLAIMS OUTSTANDING

	Reported £'000	IBNR £'000	Total £'000
2016			
Gross claims	90,229	64,859	155,088
Reinsurance	(40,456)	(23,688)	(64,144)
Net claims	49,773	41,171	90,944
2015			
Gross claims	84,418	60,135	144,553
Reinsurance	(39,781)	(23,942)	(63,723)
Net claims	44,637	36,193	80,830

13. DEBTORS ARISING OUT OF DIRECT INSURANCE OPERATIONS

	2016 £'000	2015 £'000
Due from intermediaries within one year	27,876	22,454

14. OTHER DEBTORS

	2016 £'000	2015 £'000
Balance with group undertakings	1,244	-
Other including taxes	1,555	909
	2,799	909

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.

15. OVERSEAS DEPOSITS

Overseas deposits (see also Note 11) are lodged as a condition of conducting underwriting business in certain countries. The funds are required in order to protect policyholders and enable the Syndicate to operate in those markets. The Syndicate has restricted access to these funds and has no influence over how they are invested.

16. OTHER CREDITORS INCLUDING TAXATION AND SOCIAL SECURITY

	2016 £'000	2015 £'000
Balance with group companies	48,079	6,035

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.

NOTES TO THE FINANCIAL STATEMENTS

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

	2016	2015
	£'000	£'000
Profit for the financial year	4,416	2,930
Investment return	1,030	655
Decrease in net technical provisions	(2,961)	(4,221)
(Increase)/decrease in debtors	(8,425)	2,818
Decrease/(increase) in prepayments and accrued income	26	(1,150)
Increase/(decrease) in creditors	39,784	(827)
(Decrease)/increase in accruals and deferred income	(294)	301
Other movements – foreign currency loss on retranslation	(2,231)	254
Net cash inflow/(outflow) from operating activities	31,345	760

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 (2015: £150,000) from its Managing Agent, HCCUA. HCCUA is a wholly-owned subsidiary of HCC Intermediate Holdings Inc. An amount of £12,500 (2015: £12,500 due to) was due to HCCUA at the balance sheet date. In addition, £9.6m (2015: £7.5m) was paid to HCC Service Company Inc. (UK branch) for expenses paid during the year on behalf of the Syndicate and an amount of £1.3m was due to (2015: £0.4m due to) HCC Service Company Inc. (UK branch) at the balance sheet date. Profit related remuneration for the Syndicate's underwriting staff is charged to the Syndicate.
- c. The Syndicate shares a reinsurance programme with the other TMHCC International carriers. Reinsurance premiums are pro-rated across TMHCC International 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 £5.1m (2015: £1.9m due to) at the balance sheet date.
- d. Nameco provides the entire capacity of Syndicate 4141. The immediate controller of Nameco and its sole shareholder is HCC Intermediate Holdings, Inc. and the ultimate controller is TMHD. An amount of £7.1m (2015: £0.4m due to) 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 S.L. These arrangements have produced:

	2016	2015
	£'000	£'000
Premium income	52,248	40,211
Commission expense	20,521	18,026
Balance due from/(to) the Syndicate at year end	1,244	(846)

NOTES TO THE FINANCIAL STATEMENTS

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

	2016	2015
	£'000	£'000
Gross premium written	279	95
Acquisition costs	91	31
Balance due to the Syndicate at year end	791	885

- g. The following directors are also directors of HCCII, a wholly owned subsidiary of the HCC Group:
- S A Button
 - B J Cook
 - C Scarr
 - H-D Rohlf
 - T J G Hervy
 - N I Hutton-Penman
 - K L Letsinger
 - N C Marsh
 - W R Treen (resigned 31 March 2016)
 - H Ishii (Non-executive) (appointed 1 November 2016)

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 members' 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 members, FAL to meet the Syndicate's liquidity requirements or to settle its losses.

20. 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 £69,753 (2015: £65,121). The accrued pension cost outstanding as at 31 December 2016 was £nil (2015: £nil).

21. SUBSEQUENT EVENTS

On 27th February 2017, the Lord Chancellor reduced the Ogden rate from 2.5% to -0.75%. The Ogden rate represents the discount rate used to discount future compensation payments net of inflation to ensure claimants are adequately compensated for future inflation. This rate is the discount rate that is applied for lump sum awards in the UK for bodily injury claims. Reducing the Ogden rate results in the present value of lump sum awards being higher and therefore increases the cost for insurers.

The Syndicate's management conducted an analysis and has determined that effect of this change is immaterial.