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TOKIOMARINE
HCC

Annual Report and Financial Statements
Syndicate 4141

HCC Underwriting Agency Ltd.

Year ended 31 December 2017



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) K L Letsinger N C Marsh (Non-executive Chairman) H-D Rohlf (Non-executive) C Scarr (Non-executive) G White (appointed 21 December 2017)
Syndicate:	Syndicate 4141
Active Underwriter:	S A Button
Company Secretary:	D R Feldman J L Holliday
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 2017 (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 2017, TMHD had total assets of YEN ¥23.3 trillion (December 2016: YEN ¥22.1 trillion) and shareholders' equity of YEN ¥3.9 trillion (December 2016: YEN ¥3.4 trillion). Tokio Marine HCC Insurance Holdings, Inc. (Tokio Marine HCC Group) is a subsidiary of TMHD. Tokio Marine HCC International Group (Tokio Marine HCC International), which includes the Syndicate, Tokio Marine HCC Insurance International PLC, (HCCI) and Houston Casualty Company (London Branch) (HCL) is part of the Tokio Marine HCC Group. The Tokio Marine HCC International underwriters write business on the international platforms based on prescribed rules which determine which carrier is utilised. Licensing, distribution or client choices are the principle determinants of the platform utilised. Lines of business 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. Travel Medical business is written exclusively by the Syndicate on behalf of the Tokio Marine HCC Group's wholly-owned agency, HCC Medical Insurance Services ('HCCMIS'), based in Indiana, USA. Financial Lines is similarly underwritten through HCC Global Financial Products S.L. ('HCCG') a wholly owned subsidiary of Tokio Marine HCC. 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 the Member's 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, have enabled the Syndicate to achieve its strategic objectives.

Overall, the Syndicate has grown year on year principally through increased writing of Financial Lines and US Professional Indemnity business which are new lines of business. Additionally, the HCCMIS Travel Medical portfolio continues to grow organically. This growth was offset by lower Property Treaty and HCC Credit business principally due to rating factors and client choice of paper. The Syndicate was impacted by the active catastrophe environment in 2017 although gross claims were well within management expectations considering the overall market impact and reinsurance protections significantly cushioned the net loss. Notwithstanding the impact on the 2017 reinsurance programme, the Syndicate's 2018 reinsurance programme has been renewed at 1 January 2018 with terms consistent with 2017. These conditions, combined with the solid capital position of its Corporate member, the Syndicate is well positioned to benefit from rate increases arising from the 2017 environment particularly for the Property Treaty and Property D&F businesses.

REPORT OF THE DIRECTORS OF THE MANAGING AGENT

Business Review

Results and Performance

The Syndicate made a loss for the financial year of £2.6m (2016: profit of £4.4m). The balance on the technical account totalled £(3.2)m (2016: £1.8m) and reflects a combined ratio, excluding investment return, of 105.4% (2016: 96.9%).

The loss ratio for 2017 was 12.1% higher than 2016 but includes £22.5m net claims from the 2017 catastrophes; Hurricanes Irma, Harvey and Maria. The net provisions for these three events accounts for 20.8% of the loss ratio (2016: £5.8m and 6.2% of the loss ratio). Mitigating this was 8.6% (2016: 9.0%) of prior year reserve releases which total £9.3m (2016: £8.3m).

Investment return was £3.7m higher in 2017 at £2.7m profit (2016: £1.0m loss), largely due to unrealised gains of £2.6m (2016: £1.8m losses). The foreign exchange gain totalled £0.6m (2016: £2.6m).

The sterling average exchange rate weakened further in 2017 to £1 = \$1.29 (2016: \$1.35) and to £1 = €1.14 (2016: €1.10).

Key Performance Indicators (KPIs)

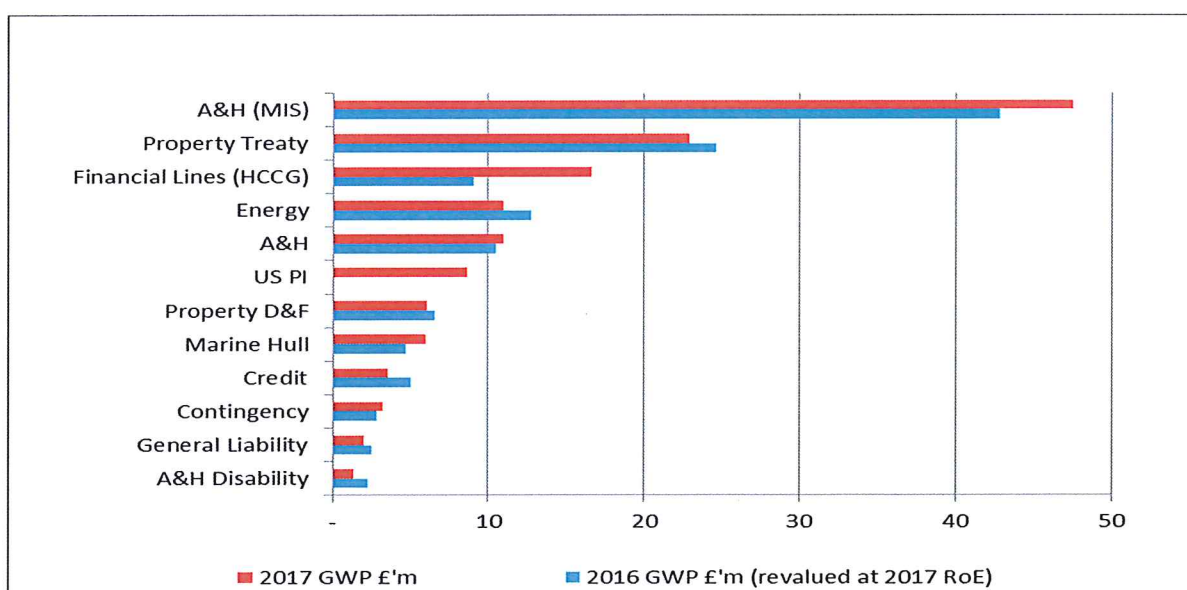
The Managing Agent monitors a number of KPIs for the business:

	2017 £m	2016 £m
Cash and investments	124.0	140.9
Gross written premiums	139.7	118.1
Underwriting (loss)/profit (excl. investment return)	(5.8)	2.8
(Loss)/Profit for the financial year	(2.6)	4.4
Net loss ratio	63.3%	51.2%
Combined ratio (excl. investment return)	105.4%	96.9%
Investment return	2.7	(1.0)

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

Gross Written Premiums

Syndicate 2017 gross written premium for its principal lines of business compared to 2016 translated at the 2017 average rate of exchange from US dollar functional currency are presented below:



REPORT OF THE DIRECTORS OF THE MANAGING AGENT

Gross written premium totalled £139.7m compared to £118.1m in 2016. The £21.6m increase includes a £5.4m increase due to foreign exchange. The remaining £16.2m increase is principally attributable to: £8.6m of US Professional Indemnity, a new line of business, £7.5m of Financial Lines and £5.2m of A&H, principally due to growth in the well established Travel Medical business (MIS). The London Market lines which experienced the most rating pressure (Property Treaty, Energy, A&H and D&F) were £2.2m below 2016. It should be noted, however, that Marine gross written premium was higher than 2016 as the result of a change in the underwriting team. Other lines of business were lower than 2016 by £2.9m including a reduction in Credit & Political Risk of £1.4m.

The largest line of business written by the Syndicate continues to be Accident and Health which is comprised principally of Travel Medical business written on behalf of the Syndicate by HCCMIS. The main driver of growth is the on-line Atlas product.

Accident and Health

Accident and Health is comprised principally of the Travel Medical business written by HCCMIS which accounted for £4.8m of the £5.2m growth in the year. Its short term travel medical product and student specific health plans, sold via the internet, continue to generate profitable growth from expanded distribution of the product.

Property Treaty

Property Treaty premium written in 2017 decreased marginally (£1.7m) principally due to client choice of paper. With challenging general market conditions over the past several years and through most of 2017, the strategy is to support clients well known to us by offering capacity on the higher layers of their programmes. This strategy continues to be successful and our historic loss experience compares favourably with that of our peers.

Energy

Energy business has decreased in 2017 principally as the result of continuing poor market conditions from reduced activity in the sector, lower appetite for wind cover and insureds retaining more risk.

Financial Lines

The Financial Lines portfolio has grown, mainly driven by opportunities for Directors and Officers business in territories where Lloyd's offers licenses as well as standalone Cyber business which is a relatively new opportunity where Tokio Marine HCC have invested in new underwriting talent.

US Professional Liability

During 2017 the Syndicate took a participation on a number of facilities operated by a long term Lloyd's coverholder NAS. The opportunity arose by virtue of the Syndicate being part of the wider Tokio Marine group. The business underwritten is primarily legal expense and Cyber protection of the US Medical Profession. Limits are relatively small and the business has a long track record of profitability. The portfolio is expected to grow modestly into the future and loss experience to date has been well within expectations.

Reinsurance

Reinsurance to cover catastrophe exposed lines is purchased by line of business on a shared basis for the HCC International insurance platforms, and reinsurance premiums for excess of loss programmes are allocated across the platforms based on gross written premiums. Reinsurance recoveries are allocated based on the share of gross claims 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.

REPORT OF THE DIRECTORS OF THE MANAGING AGENT

Review of financial position

Financial investments of £122.2m at December 2017 (2016; £135.3m) have not changed materially in 2017 after taking account of the strengthening of Sterling against the US dollar from 1.23 at December 2016 to 1.35 at December 2017.

Gross claims outstanding have increased from £155.1m to £172.4m, mainly due to catastrophe claims noted above. Reinsurance claims outstanding have increased from £64.1m to £70.8m in response to the gross claims.

The Syndicate has a Member's balance of (£4.7m) as at 31 December 2017 (2016: £6.7m). The directors of the Managing Agent have prepared the financial statements on the basis that the Syndicate will continue to write future business. The ability of the Syndicate to meet its obligations as they fall due is underpinned by the support provided by the Lloyd's solvency process and its chain of security for any members who are unable to meet their underwriting liabilities. Accordingly, the Syndicate has adequate capital support to meet its obligations as they fall due. Member's Funds at Lloyd's are further explained in Note 18.

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.

The United Kingdom voted to leave European Union on 23 June 2016 and the subsequent triggering of Article 51 on 29 March 2017 presents the Syndicate with the risk that business currently underwritten through pass porting would not be licensed. It is noted that, because of the geographic focus of the business written, "Brexit" is unlikely to have a material impact on the Syndicate.

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, which are categorised as Insurance, Strategic, Market, Operational and Credit risks. The risk indicators are considered in detail in Note 5 to the financial statements.

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)
K L Letsinger
N C Marsh (Non-executive Chairman)
H-D Rohlif (Non-executive)
C Scarr (Non-executive)
G White (appointed 21 December 2017)

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:

	2017	2016
	£'000	£'000
	(unaudited)	(audited)
Managed capacity	175,000	150,000
Fee income	150	150
Commission income	452	339
Expenses net of recharges	(105)	(66)
Other expense	(8)	(9)
Profit before tax	489	414
Net assets	1,750	1,355

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-Lloyd's 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 2.41 years (2016: 2.08 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.

Post Balance Sheet events

There are no significant post balance sheet events to be disclosed.

REPORT OF THE DIRECTORS OF THE MANAGING AGENT

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 those Syndicate Annual Accounts, the Managing Agent is required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the Annual Accounts; and
- prepare the Annual Accounts on the basis that the Syndicate will continue to write future business unless it is inappropriate to presume that the Syndicate will do so.

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

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 2017, 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
22 February 2018

INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF SYNDICATE 4141

Report on the syndicate annual accounts

Opinion

In our opinion, Syndicate 4141's syndicate annual accounts (the "syndicate annual accounts"):

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2017 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, (United Kingdom Accounting Standards comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"); and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

We have audited the syndicate annual accounts included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the balance sheet at 31 December 2017, the profit and loss account for the year then ended, the statement of other comprehensive income for the year then ended, the statement of changes in member's balance, the statement of cash flows, and the notes to the syndicate annual accounts, which include a summary of significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, as amended by The Statutory Auditors and Third Country Auditors Regulations 2017 and other applicable law.

Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the syndicate annual accounts section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the syndicate in accordance with the ethical requirements that are relevant to our audit of the syndicate annual accounts in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

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

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the syndicate's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the syndicate annual accounts and our auditors' report thereon. The managing agent is responsible for the other information. Our opinion on the syndicate annual accounts does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.



INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF SYNDICATE 4141

In connection with our audit of the syndicate annual accounts, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the syndicate annual accounts or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the syndicate annual accounts or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Managing Agent's Report, we also considered whether the disclosures required by Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Managing Agent's Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Managing Agent's Report for the year ended 31 December 2017 is consistent with the syndicate annual accounts and has been prepared in accordance with The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

In light of the knowledge and understanding of the syndicate and its environment obtained in the course of the audit, we did not identify any material misstatements in the Managing Agent's Report.

Responsibilities for the syndicate annual accounts and the audit

Responsibilities of the managing agent for the syndicate annual accounts

As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 9 the managing agent is responsible for the preparation of the syndicate annual accounts in accordance with the applicable framework and for being satisfied that they give a true and fair view. The managing agent is also responsible for such internal control as they determine is necessary to enable the preparation of syndicate annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the syndicate annual accounts, the managing agent is responsible for assessing the syndicate's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless it is intended for the syndicate to cease to write future business, or it has no realistic alternative but to do so.

Auditors' responsibilities for the audit of the syndicate annual accounts

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

A further description of our responsibilities for the audit of the syndicate annual accounts is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.



INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF SYNDICATE 4141

Use of this report

This report, including the opinions, has been prepared for and only for the syndicate's member as a body in accordance with part 2 of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, as amended by The Statutory Auditors and Third Country Auditors Regulations 2017 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.

Other required reporting

Other matters on which we are required to report by exception

Under The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, as amended by The Statutory Auditors and Third Country Auditors Regulations 2017, 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
- certain disclosures of managing agent remuneration specified by law are not made; or
- the syndicate annual accounts are not in agreement with the accounting records.

We have no exceptions to report arising from this responsibility.

A handwritten signature in black ink that reads "Zahid Khan".

Zahid Khan (Senior statutory auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

22 February 2018

**PROFIT AND LOSS ACCOUNT:
 TECHNICAL ACCOUNT – GENERAL BUSINESS**

for the year ended 31 December 2017

	Note	2017		2016	
		£'000	£'000	£'000	£'000
Earned premiums, net of reinsurance					
Gross premiums written	6	139,734		118,070	
Outward reinsurance premiums		(22,158)		(22,669)	
Net premiums written		<u>117,576</u>		<u>95,401</u>	
Change in the provision for unearned premiums					
Gross amount	12	(11,150)		(2,599)	
Reinsurers' share	12	1,804		(491)	
Change in the net provision for unearned premiums		<u>(9,346)</u>		<u>(3,090)</u>	
Earned premiums, net of reinsurance			108,230		92,311
Earned investment return transferred from the non-technical account			2,653		(1,030)
Claims incurred, net of reinsurance					
Claims paid					
Gross amount		(61,218)		(76,225)	
Reinsurers' share		7,918		26,158	
Net claims paid		<u>(53,300)</u>		<u>(50,067)</u>	
Change in the provision for claims					
Gross amount	12	(25,074)		11,487	
Reinsurers' share	12	9,811		(8,695)	
Change in the net provision for claims		<u>(15,263)</u>		<u>2,792</u>	
Claims incurred, net of reinsurance	7		(68,563)		(47,275)
Net operating expenses	8		(45,506)		(42,216)
Balance on the technical account for general business			<u>(3,186)</u>		<u>1,790</u>

All amounts relate to continuing operations.



**PROFIT AND LOSS ACCOUNT:
NON-TECHNICAL ACCOUNT**

for the year ended 31 December 2017

	Note	2017 £'000	2016 £'000
Balance on the general business technical account		(3,186)	1,790
Investment income	10	1,418	1,506
Unrealised gains on investments	10	2,606	186
Investment expenses and charges	10	(875)	(950)
Unrealised losses on investments	10	(496)	(1,772)
Earned investment return transferred to general business technical account	10	(2,653)	1,030
Other income including value adjustments		618	2,626
(Loss)/profit for the financial year		<u>(2,568)</u>	<u>4,416</u>

STATEMENT OF OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2017

	2017 £'000	2016 £'000
(Loss)/profit for the financial year	(2,568)	4,416
Foreign currency exchange profit on translation	335	747
Total recognised (losses)/gains	<u>(2,233)</u>	<u>5,163</u>

BALANCE SHEET

as at 31 December 2017

	Note	2017 £'000	2016 £'000
ASSETS			
Investments			
Other financial investments	11	122,236	135,326
Reinsurers' share of technical provisions			
Provision for unearned premiums	12	6,820	6,351
Claims outstanding	12	<u>70,785</u>	<u>64,144</u>
		77,605	70,495
Debtors			
Debtors arising out of direct insurance operations	13	28,412	27,876
Debtors arising out of reinsurance operations		3,863	9,403
Other debtors	14	<u>24</u>	<u>2,799</u>
		32,299	40,078
Other assets			
Cash at bank and in hand		1,751	5,586
Prepayments and accrued income			
Accrued interest		461	522
Deferred acquisition costs	12	<u>13,094</u>	<u>10,179</u>
		13,555	10,701
Total assets		<u><u>247,446</u></u>	<u><u>262,186</u></u>

BALANCE SHEET

as at 31 December 2017

	Note	2017 £'000	2016 £'000
LIABILITIES			
Member's balance		(4,749)	6,716
Technical provisions			
Provision for unearned premiums	12	48,911	40,970
Claims outstanding	12	<u>172,403</u>	<u>155,088</u>
		221,314	196,058
Creditors			
Creditors arising out of direct insurance operations		-	1,543
Creditors arising out of reinsurance operations		4,459	8,330
Other creditors including taxation and social security	15	<u>24,436</u>	<u>48,079</u>
		28,895	57,952
Accruals and deferred Income		1,986	1,460
Total liabilities		<u><u>247,446</u></u>	<u><u>262,186</u></u>

The financial statements on pages 13 to 45 were approved by the Board of HCC Underwriting Agency Ltd. and signed on its behalf by



K L Letsinger
Director
22 February 2018

STATEMENTS OF CHANGES IN MEMBER'S BALANCE AND CASH FLOWS
for the year ended 31 December 2017

STATEMENT OF CHANGES IN MEMBER'S BALANCE	2017	2016
	£'000	£'000
Member's balance brought forward at 1 January	6,716	6,961
(Loss)/profit for the financial year	(2,568)	4,416
Foreign currency exchange profit on translation	335	747
Profit distribution	(9,232)	(5,408)
Member's balance (receivable)/payable carried forward at 31 December	<u>(4,749)</u>	<u>6,716</u>

STATEMENT OF CASH FLOWS		2017	2016
	Note	£'000	£'000
Net cash inflow from operating activities	16	4,522	31,345
Investing activities:			
Purchase of debt securities		(41,530)	(55,819)
Sale of debt securities		44,465	28,795
Investment income received (including realised FX on maturity of investments)		(1,568)	2,685
Financing activities:			
Profit distribution		(9,232)	(5,408)
Net cash (outflow)/inflow		<u>(3,343)</u>	<u>1,598</u>
Cash and cash equivalents at beginning of year		5,586	3,310
Foreign exchange (loss)/profit on translation of brought forward balances		(492)	678
Cash and cash equivalents at end of year		<u>1,751</u>	<u>5,586</u>

Cash and cash equivalents consist of:	2017	2016
	£'000	£'000
Cash at bank and in hand	<u>1,751</u>	<u>5,586</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.

In 2017, the Syndicate recorded a change in estimate for earnings patterns on certain lines of Credit and Financial Lines businesses which reduced the loss for the financial year by £0.1m. This result was comprised of an increase in net earned premium of £1.2m less net incurred claims of £0.8m and net earned acquisition costs of £0.3m.

b. Going concern

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

c. Foreign currency

Functional and presentation currency

The Syndicate's functional currency is US Dollars and consistent with prior years the presentation currency is Sterling as required by Lloyd's. 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.

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\$ 1.3494 (2016: US\$1.2305); and

NOTES TO THE FINANCIAL STATEMENTS

- b) income and expenses at monthly rates during the year. The average rate for the year for Sterling was £1 = US\$1.29 (2016: US\$1.35).

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 claims 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 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

NOTES TO THE FINANCIAL STATEMENTS

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 claims; 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 Tokio Marine HCC International platforms based on gross written premiums. Reinsurance recoveries are allocated based on the share of gross claims 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'.

Subrogation and salvage

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

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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.

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

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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.

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

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

NOTES TO THE FINANCIAL STATEMENTS

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 £101.6m (2016: £90.9m), 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 £108.8m (2016: £115.1m), 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 Company makes an estimate of premiums written on a policy by policy basis during the year that have not yet been notified by the financial year end ('pipeline premiums'). The pipeline premium is recorded as gross written premium 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 £25.0m (2016: £22.2m).

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.

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 claims 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;



NOTES TO THE FINANCIAL STATEMENTS

- event risk – the risk that individual risk claims 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 Company manages and models these four elements in the following three categories; attritional claims, large claims and catastrophe events.

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

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

These authority limits are enforced through a comprehensive sign-off process for underwriting transactions including 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 claims. 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 aggregated 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.

The Syndicate uses a number of modelling tools to monitor its exposures against the agreed risk appetite set and to simulate catastrophe claims 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 claims 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.

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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 claims 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 Tokio Marine HCC Reinsurance Security Policy 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 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

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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 31 December 2017 foreign exchange rates throughout the triangle.

Loss development triangles - GROSS Ultimate claims and cumulative payments	Underwriting year (pure YOA)							TOTAL
	2011	2012	2013	2014	2015	2016	2017	
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
End of reporting year	48,283	27,361	27,036	29,577	33,247	31,864	78,356	
- one year later (*)	96,439	56,646	52,735	46,084	64,778	60,802		
- two years later	97,870	55,630	63,615	44,277	65,998			
- three years later	95,628	51,742	59,749	47,190				
- four years later	91,327	60,761	50,340					
- five years later	91,881	57,571						
- six years later	86,972							
Current estimate of ultimate claims	86,972	57,571	50,340	47,190	65,998	60,802	78,356	
Cumulative payments to date	(80,626)	(54,536)	(45,182)	(38,814)	(47,254)	(29,087)	(12,401)	
Liability recognised in the balance sheet	6,346	3,035	5,158	8,376	18,744	31,715	65,955	139,329
Provision in respect of previous years								33,074
Total provision included in the balance sheet								172,403

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Loss development triangles - NET	Underwriting year (pure YOA)							TOTAL
	2011	2012	2013	2014	2015	2016	2017	
Ultimate claims and cumulative payments	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
End of reporting year	40,594	21,704	22,414	27,834	25,038	30,111	47,186	
- one year later (*)	75,174	38,307	41,344	42,127	48,496	54,845		
- two years later	76,753	39,070	44,223	39,859	49,721			
- three years later	73,360	37,767	40,765	42,599				
- four years later	69,332	38,020	40,062					
- five years later	70,034	36,779						
Six years later	67,123							
Current estimate of ultimate claims	67,123	36,779	40,062	42,599	49,721	54,845	47,186	
Cumulative payments to date	(60,730)	(33,899)	(36,014)	(36,788)	(39,578)	(27,857)	(12,118)	
Liability recognised in the balance sheet	6,393	2,879	4,048	5,810	10,143	26,988	35,069	91,331
Provision in respect of previous years								10,287
Total provision included in the balance sheet								101,618

* 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



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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.

Capital

The Society of Lloyd's (Lloyd's) is a regulated undertaking and subject to supervision by the PRA under the Financial Services and Markets Act 2000, and in accordance with the Solvency II Framework. Within this supervisory framework, Lloyd's applies capital requirements at member level and centrally to ensure that Lloyd's complies with Solvency II requirements, and beyond that to meet its own financial strength, licence and ratings objectives. Although, as described below, Lloyd's capital setting processes use a capital requirement set at syndicate level as a starting point, the requirement to meet Solvency II and Lloyd's capital requirements apply at overall and member level only respectively, not at syndicate level. Accordingly, the capital requirement at syndicate level is not disclosed in these financial statements.

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

Over and above the SCR, Lloyd's applies capital uplift to the member's capital requirement, known as the Economic Capital Assessment ('ECA'). The purpose of this uplift, which is a Lloyd's rather than Solvency II requirement, is to meet Lloyd's financial strength, licencing and ratings objectives. The capital uplift applied for 2017 was 35% (2016: 35%) of the member's SCR 'to ultimate'. 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) plus Tier 1 assets required by 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.

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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 2017, 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 2018.

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 '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 the Statement of Other Comprehensive Income.

Although net assets in the balance sheet are relatively small, comprising the Member's balance on the open Years of Account which are distributed when the YoA closes, foreign exchange risk arises if net assets in individual foreign currencies are not 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 2017, the Syndicate managed its foreign exchange risk by periodically assessing its non-US Dollar exposures and rebalancing where appropriate.

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The following table summarises the carrying values of non US dollar total assets and total liabilities, converted to US dollars and categorised by the Syndicate's main currencies:

FX risk exposure	AUD\$	CAD\$	CHF	EUR	GBP
31 December 2017	\$'000	\$'000	\$'000	\$'000	\$'000
Total assets	18,125	60,518	13	24,896	46,336
Total liabilities	(16,322)	(19,109)	(10)	(23,067)	(46,287)
Net assets	1,803	41,409	3	1,829	49

FX risk exposure	AUD\$	CAD\$	CHF	EUR	GBP
31 December 2016	\$'000	\$'000	\$'000	\$'000	\$'000
Total assets	17,228	56,812	-	23,759	46,443
Total liabilities	(16,372)	(22,167)	-	(21,271)	(46,946)
Net assets	856	34,645	-	2,488	(503)

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 (loss)/			
	profit for the financial year		Impact on net assets	
Change in exchange rate of Canadian dollar, Australian dollar, Euro and Sterling, relative to USD dollar	2017 £'000	2016 £'000	2017 £'000	2016 £'000
US dollar weakens 30% against other currencies	(468)	2,238	(10,030)	(9,109)
US dollar weakens 20% against other currencies	(421)	1,492	(6,686)	(6,073)
US dollar weakens 10% against other currencies	(156)	746	(1,297)	(3,036)
US dollar strengthens 10% against other currencies	156	(746)	1,297	3,036
US dollar strengthens 20% against other currencies	421	(1,492)	6,686	6,073
US dollar strengthens 30% against other currencies	468	(2,238)	10,030	9,109

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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	Total
31 December 2017	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Shares and other variable yield securities	35,842	-	-	-	-	-	35,842
Debt Securities	11,118	13,660	9,872	5,016	7,326	2,927	49,919
Overseas deposits	36,475	-	-	-	-	-	36,475
Total other financial investments	83,435	13,660	9,872	5,016	7,326	2,927	122,236
Cash at bank	1,751	-	-	-	-	-	1,751
Total	85,186	13,660	9,872	5,016	7,326	2,927	123,987

Investments and cash - Duration	<1 yr	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	5-10 yrs	Total
31 December 2016	£'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
Cash at bank	5,586	-	-	-	-	-	5,586
Total	119,334	7,466	6,417	5,044	1,854	797	140,912

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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	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Shift in yield (basis points)				
100 basis point increase	(1,190)	(666)	(1,190)	(666)
50 basis point increase	(595)	(333)	(595)	(333)
50 basis point decrease	607	335	607	335
100 basis point decrease	1,214	670	1,214	670

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.

NOTES TO THE FINANCIAL STATEMENTS

5.5 Credit risk

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

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

The Syndicate's core business is to accept 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 2017	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Shares and variable yield securities	10,364	24,876	602	-	-	-	35,842
Debt securities	22,026	7,205	15,910	4,778	-	-	49,919
Overseas deposits	21,875	4,841	4,553	3,024	392	1,790	36,475
Total other financial investments	54,265	36,922	21,065	7,802	392	1,790	122,236
Reinsurers' share of claims outstanding	-	38,513	27,629	-	314	4,329	70,785
Cash at bank	-	-	-	1,751	-	-	1,751
Total	54,265	75,435	48,694	9,553	706	6,119	194,772



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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 securities	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
Cash at bank	-	-	-	5,586	-	-	5,586
Total	44,153	100,609	47,344	13,322	-	(372)	205,056

The Syndicate's largest counterparty exposure is £18.9m of Canadian government securities of which £12.0m was Canadian Housing Trust (2016 - £5.9m US Treasuries).

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 2017	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	70,785	-	-	-	-	70,785
Insurance debtors	23,889	58	1,486	1,884	1,095	28,412
Reinsurance debtors	-	1,508	913	694	748	3,863
Other debtors	24	-	-	-	-	24
Total	94,698	1,566	2,399	2,578	1,843	103,084

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

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Fair value estimation

The following table presents the Syndicate's financial investments measured at fair value at 31 December 2017 and 31 December 2016 categorized into levels 1, 2 and 3, reflecting the categorisation criteria specified in FRS102.

Financial investments – pricing basis	Level 1	Level 2	Level 3	Total
31 December 2017	£'000	£'000	£'000	£'000
Shares and other variable yield securities	-	35,842	-	35,842
Debt securities	2,038	47,881	-	49,919
Overseas deposits	11,416	25,059	-	36,475
Total	13,454	108,782	-	122,236

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
Total	20,207	115,119	-	135,326

FRS102 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.d.(ii) h.

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 as Level 2 securities is impractical. FRS102 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 maximises the use of observable market data where it is available and relies 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 2017 or 31 December 2016.

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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 2017 and 2016:

Financial liabilities – projected cash flows 31 December 2017	Within 1 year £'000	1-3 years £'000	3-5 years £'000	>5 years £'000	Total £'000
Net claims outstanding	52,322	32,411	9,207	7,678	101,618
Creditors from direct insurance operations	-	-	-	-	-
Creditors from reinsurance operations	4,459	-	-	-	4,459
Other creditors	24,436	-	-	-	24,436
Total	81,217	32,411	9,207	7,678	130,513

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

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

Investments and cash - maturity	Within				Total
	1 year	1-3 years	3-5 years	>5 years	
31 December 2017	£'000	£'000	£'000	£'000	£'000
Shares and other variable yield securities	35,842	-	-	-	35,842
Debt security	8,959	22,538	15,493	2,929	49,919
Overseas Deposits	36,475	-	-	-	36,475
Total other financial investments	81,276	22,538	15,493	2,929	122,236
Cash at bank	1,751	-	-	-	1,751
Total	83,027	22,538	15,493	2,929	123,987

Investments and cash - maturity	Within				Total
	1 year	1-3 years	3-4 yrs	>5 years	
31 December 2016	£'000	£'000	£'000	£'000	£'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
Cash at bank	5,586	-	-	-	5,586
Total	119,285	13,701	4,280	3,646	140,912

6. SEGMENTAL ANALYSIS

The analysis of the underwriting result set out below applies the Lloyd's reporting class categories which are not entirely consistent with the line of business analysis used in managing and monitoring of the business, as referred to in the Business Review (Pages 5 to 8).

	Gross premiums written	Gross premiums earned	Gross claims incurred	Gross operating expenses	Reinsurance balance	Net Underwriting result
2017	£'000	£'000	£'000	£'000	£'000	£'000
Direct insurance:						
Accident and health	54,645	51,838	(23,048)	(25,124)	(230)	3,436
Marine aviation and transport	12,365	11,153	(9,671)	(4,200)	(2,464)	(5,182)
Fire and other damage to property	5,036	5,737	(18,101)	(1,477)	10,912	(2,929)
Third party liability	26,092	18,738	861	(4,443)	(8,141)	7,015
Miscellaneous	7,897	8,633	(8,796)	(2,225)	1,150	(1,238)
Total direct	106,035	96,099	(58,755)	(37,469)	1,227	1,102
Reinsurance assumed	33,699	32,485	(27,537)	(8,037)	(3,852)	(6,941)
Total	139,734	128,584	(86,292)	(45,506)	(2,625)	(5,839)
Investment return						2,653
Technical account						(3,186)

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6. SEGMENTAL ANALYSIS (continued)

	Gross premiums written £'000	Gross premiums earned £'000	Gross claims incurred £'000	Gross operating expenses £'000	Reinsurance balance (Restated) £'000	Net Underwriting result £'000
2016						
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

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:

	2017 £'000	2016 £'000
UK	19,295	18,762
Other EU countries	7,423	3,024
Rest of the world	113,016	96,284
Total	139,734	118,070

7. MOVEMENT IN PRIOR YEARS' PROVISION FOR CLAIMS OUTSTANDING

Net claims incurred include prior year reserve releases totalling £9.3m (2016: £8.3m release). The 2016 reserve releases have been restated to be consistent with the 2017 reserve releases which are reported on an accident year basis.

8. NET OPERATING EXPENSES

	2017 £'000	2016 £'000
Acquisition costs	39,418	32,708
Change in deferred acquisition costs	(3,707)	(71)
Reinsurers' commissions and profit participation	(3,185)	(2,164)
Administrative expenses (see analysis below)	12,980	11,743
	45,506	42,216

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8. NET OPERATING EXPENSES (continued)

	2017	2016
	£'000	£'000
Administrative expenses:		
Wages and salaries	1,332	1,162
Social security costs	184	163
Other pension costs	71	70
Total staff costs	1,587	1,395
Syndicate auditors' remuneration – audit services	187	251
Syndicate auditors' remuneration – other assurance services pursuant to legislation	123	120
Personal expenses	935	800
Other expenses	10,148	9,177
	12,980	11,743

Total commissions for direct insurance amounted to £22.8m (2016: £19.1m).

The average number of direct underwriting staff (excluding directors) working for the Syndicate during the year was eleven (2016: nine).

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. This staff information is not included in salary costs and average staff numbers as it is not practical to allocate them to the underlying entities to which the staff provide services.

9. DIRECTORS' EMOLUMENTS

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

	2017	2016
	£'000	£'000
Aggregate emoluments	1,087	1,093
Pension contributions	1	10
	1,088	1,103

Included in aggregate emoluments above is £279,877 (2016: £300,606) for the services of the Active Underwriter. Pension contributions for the Active Underwriter totalled £nil (2016: £2,439). Pension benefits are accruing to one director (2016: four) under the Group's defined contribution scheme.

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

	2017	2016
	£'000	£'000
Aggregate emoluments	387	365
Pension contributions	-	-
	387	365

NOTES TO THE FINANCIAL STATEMENTS

10. INVESTMENT INCOME

	2017	2016
	£'000	£'000
Investment income:		
Income from financial investments at fair value through profit or loss	1,418	1,503
Gains on the realisation of financial investments at fair value through profit or loss	-	3
	<u>1,418</u>	<u>1,506</u>
Investment expenses and charges:		
Investment management expense	(122)	(174)
Losses on the realisation of financial investments at fair value through profit or loss	(753)	(776)
	<u>(875)</u>	<u>(950)</u>
Net unrealised losses on investments:		
Unrealised gains on financial investments at fair value through profit or loss	2,606	186
Unrealised losses on financial investments at fair value through profit or loss	(496)	(1,772)
	<u>2,110</u>	<u>(1,586)</u>
Total investment return	<u>2,653</u>	<u>(1,030)</u>
Earned investment return transferred to the technical account	<u>2,653</u>	<u>(1,030)</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.

	2017			2016		
	Return £'000	Avg Fund £'000	Avg Yield %	Return £'000	Avg Fund £'000	Avg Yield %
Australian Dollars	112	11,357	1.0%	420	12,331	3.4%
Canadian Dollars	439	38,131	1.2%	158	23,865	0.7%
Euros	465	5,146	9.0%	(44)	5,252	(0.8)%
Sterling	1,159	15,262	7.6%	(1,938)	18,939	(10.2)%
United States Dollars	478	60,430	0.8%	374	55,608	0.7%
	<u>2,653</u>	<u>130,326</u>	<u>2.0%</u>	<u>(1,030)</u>	<u>115,995</u>	<u>(0.9)%</u>

NOTES TO THE FINANCIAL STATEMENTS

11. OTHER FINANCIAL INVESTMENTS

	Fair value		Book cost	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Shares and other variable yield securities and units in unit trusts	35,842	63,578	35,842	63,578
Debts securities and other fixed income securities	49,919	32,131	50,473	35,256
Overseas deposits as investments	36,475	39,617	36,475	39,617
	<u>122,236</u>	<u>135,326</u>	<u>122,790</u>	<u>138,451</u>

Of the above, £13.5m (2016: £20.2m) is listed on a recognised exchange (see note 5.5).

Overseas deposits 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.

12. TECHNICAL PROVISIONS

	Provisions for unearned premiums	Claims outstanding	Deferred acquisition costs (1)	Total
	£'000	£'000	£'000	£'000
Gross of reinsurance				
At 1 January 2017	40,970	155,088	10,179	185,879
Exchange adjustments	(3,209)	(7,759)	(792)	(10,176)
Claims paid in year	-	(61,218)	-	(61,218)
Movement in provision	11,150	86,292	3,707	93,735
At 31 December 2017	<u>48,911</u>	<u>172,403</u>	<u>13,094</u>	<u>208,220</u>
Reinsurance				
At 1 January 2017	6,351	64,144	1,263	69,232
Exchange adjustments	(1,335)	(3,170)	(89)	(4,416)
Reinsurance recoveries in the year	-	(7,918)	-	(7,918)
Movement in provision	1,804	17,729	524	19,009
At 31 December 2017	<u>6,820</u>	<u>70,785</u>	<u>1,698</u>	<u>75,907</u>
Net technical provisions				
At 31 December 2017	<u>42,091</u>	<u>101,618</u>	<u>11,396</u>	<u>132,313</u>
At 31 December 2016	<u>34,619</u>	<u>90,944</u>	<u>8,916</u>	<u>116,647</u>

(1) Reinsurer's share of deferred acquisition costs are included in accruals and deferred income.

NOTES TO THE FINANCIAL STATEMENTS

13. DEBTORS ARISING OUT OF DIRECT INSURANCE OPERATIONS

	2017	2016
	£'000	£'000
Due from intermediaries within one year	28,412	27,876

14. OTHER DEBTORS

	2017	2016
	£'000	£'000
Balance with group undertakings	-	1,244
Other including taxes	24	1,555
	<u>24</u>	<u>2,799</u>

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. OTHER CREDITORS INCLUDING TAXATION AND SOCIAL SECURITY

	2017	2016
	£'000	£'000
Balance with group companies	24,436	48,079

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.

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

	2017	2016
	£'000	£'000
(Loss)/profit for the financial year	(2,568)	4,416
Investment (return)/loss	(2,653)	1,030
Increase/(decrease) in net technical provisions	29,209	(2,961)
Decrease/(increase) in debtors	4,248	(8,425)
(Increase)/decrease in prepayments and accrued income	(3,798)	26
(Decrease)/increase in creditors	(23,950)	39,784
Increase/(decrease) in accruals and deferred income	654	(294)
Other movements – foreign currency loss on retranslation	3,380	(2,231)
Net cash inflow from operating activities	<u>4,522</u>	<u>31,345</u>

NOTES TO THE FINANCIAL STATEMENTS

17. 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 (2016: £150,000) from its Managing Agent, HCCUA. HCCUA is a wholly-owned subsidiary of HCC Intermediate Holdings Inc. An amount of £12,500 (2016: £12,500 due to) was due to HCCUA at the balance sheet date. In addition, £9.6m (2016: £9.6m) was paid to HCC Service Company Inc. (UK branch) for expenses paid during the year on behalf of the Syndicate and an amount of £1.6m was due to (2016: £1.3m 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 Tokio Marine HCC International carriers. Reinsurance premiums are pro-rated across Tokio Marine HCC International platforms according to their respective gross written premiums. Reinsurance recoveries are pro-rated based on the share of gross claims suffered by each carrier. The balance due to HCC International Insurance Company plc ('HCCII') was £1.7m (2016: £5.1m 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 £0.8m (2016: £7.1m due to) was due from 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. The arrangements produced:

	2017	2016
	£'000	£'000
Premium income	63,392	52,248
Commission expense	19,856	20,521
Balance due from the Syndicate at year end	3,056	1,244

- 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:

	2017	2016
	£'000	£'000
Gross premium written	(181)	279
Acquisition costs	65	91
Balance due to the Syndicate at year end	-	791

- g. The following directors are also directors of HCCII, a wholly owned subsidiary of the HCC Group:
- S A Button
 - B J Cook
 - T J G Hery
 - N I Hutton-Penman
 - H Ishii
 - K L Letsinger
 - N C Marsh
 - H-D Rohlf
 - C Scarr
 - G White (appointed 21 December 2017)

NOTES TO THE FINANCIAL STATEMENTS

17. RELATED PARTIES (continued)

h. All transactions noted above were conducted on an arms-length basis.

18. 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 member's FAL to meet the Syndicate's liquidity requirements or to settle its claims.

19. 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 £71,370 (2016: £69,753). The accrued pension cost outstanding as at 31 December 2017 was £nil (2016: £nil).

20. ULTIMATE CONTROLLING PARTY AND PARENT UNDERTAKING OF WHICH THE RESULTS OF THE SYNDICATE ARE INCLUDED

Nameco provides 100% of the capital to support the underwriting of the Syndicate and the principal activity of Nameco is to monitor and support the operations of the Syndicate.

The Syndicate is managed by HCC Underwriting Agency Ltd which is authorised by the Prudential Regulation Authority ('PRA') and regulated by both the Financial Conduct Authority and the Prudential Regulation Authority.

The results of the Syndicate are reported both within those of Nameco and the larger Tokio Marine HCC Insurance Holdings, Inc. group.

The ultimate parent company of both the Syndicate and of Nameco 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.

21. POST BALANCE SHEET EVENTS

The Directors confirm that there are no significant post balance sheet events to be disclosed.