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TOKIO MARINE
HCC

Annual Report and Financial Statements
Syndicate 4141

HCC Underwriting Agency Ltd.

Year ended 31 December 2019



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 K Hatakeyama (Non-executive) (appointed 1 September 2019) T J G Hervy N I Hutton-Penman H Ishii (Non-executive) (resigned 31 March 2019) K L Letsinger N C Marsh (Non-executive Chairman) H-D Rohlf (Non-executive) C A Scarr (Non-executive) G R A White
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 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 2019 (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 Activities

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.

HCCUA'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 2019, TMHD had total assets of YEN ¥24.4 trillion (31 December 2018: YEN ¥23.3 trillion) and shareholders' equity of YEN ¥3.8 trillion (31 December 2018: YEN ¥3.5 trillion).

HCCUA is part of Tokio Marine HCC International Group (Tokio Marine HCC International, or TM HCCI), which in addition to the Syndicate includes Houston Casualty Company (London Branch) (HCL) and HCC International Insurance Company plc (HCCI) and its wholly owned subsidiary, Tokio Marine Europe, S.A. (TME). TME, a Luxembourg company, began underwriting 1 January 2019. 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. The Syndicate's Contingency and Accident and Health business is underwritten by HCC Specialty Ltd, a related company. The Syndicate's capital is provided by Nameco (No. 808) Limited ('Nameco'), an affiliate in the Tokio Marine HCC Group.

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 marketplaces, positions the Syndicate to achieve its strategic objectives.

Rating conditions for the Syndicate have been strong since 2018 and steadily improved throughout 2019 across the portfolio. However, GWP has reduced year on year principally as a result of client preference where new licenses on other TM HCCI platforms (TME and HCL) which have AA- S&P rating are now available. This is most evident through the Gross Written Premium decrease in Property Treaty, Property D&F and Financial Lines business. Offsetting this, to some extent, is growth in the US PI and General Liability books where specific Lloyd's licenses are not readily available elsewhere to the TM HCCI underwriters.

The Syndicate's loss experience has been impacted due to several specific large losses in Financial Lines and Energy. Excluding this, loss experience for the current accident year has been in line with expectation. The Syndicate did not have any losses from 2019 large catastrophes. Favourable development on prior accident years reduced the net loss ratio by 6.6% (3.2% reduction in 2018).

The primary driver on the technical account performance was the investment return.

REPORT OF THE DIRECTORS OF THE MANAGING AGENT

Management Structure

HCCUA underwent changes to its Executive and Senior Management Team effective 1 October 2019, ensuring continued alignment with the Syndicate's strategic objectives and operating model whilst maintaining HCCUA's flat management structure and operational flexibility. This reorganisation facilitated the move of Nick Hutton-Penman (Formerly HCCUA Chief Executive Officer) within the TM Group, enabling him to undertake a new role as Deputy Chief Executive Officer of Tokio Marine Kiln (TMK), a fellow subsidiary of the TMHD Group but outside of TM HCC. As a consequence of this reorganisation Barry Cook has been appointed as Chief Executive Officer of HCCUA from 1 October 2019, subject to regulatory approval, which at the date of the Annual Accounts is pending.

The restructure involved other members of the Executive Team taking on additional responsibilities. In addition, several members of the established Senior Management Team have been promoted into Senior Manager regulated positions which provides additional support to the Executive. This strengthens the HCCUA's medium to long term succession planning for key roles.

Business Review

Key Performance Indicators (KPIs)

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

	2019	2018
	£m	£m
Cash and investments	128.1	126.6
Gross written premiums	146.2	160.7
Underwriting profit (excl. investment return)	4.5	18.2
Profit for the financial year	7.5	17.1
Net loss ratio	53.5%	41.9%
Combined ratio	96.5%	85.5%
Investment return/(loss)	5.0	(0.3)

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

Results and Performance

The Syndicate made a profit for the financial year of £7.5m (2018: profit of £17.1m). The balance on the technical account totalled £9.5m (2018: £17.9m) and reflects a combined ratio, excluding investment return, of 96.5% (2018:85.5%).

The net loss ratio for 2019 was 11.6% higher than 2018 resulting from several large claims incurred during the year. Large catastrophe experience for 2019 was nil and prior accident year reserve releases reduced the net loss ratio by 6.6% (2018: 3.2%)

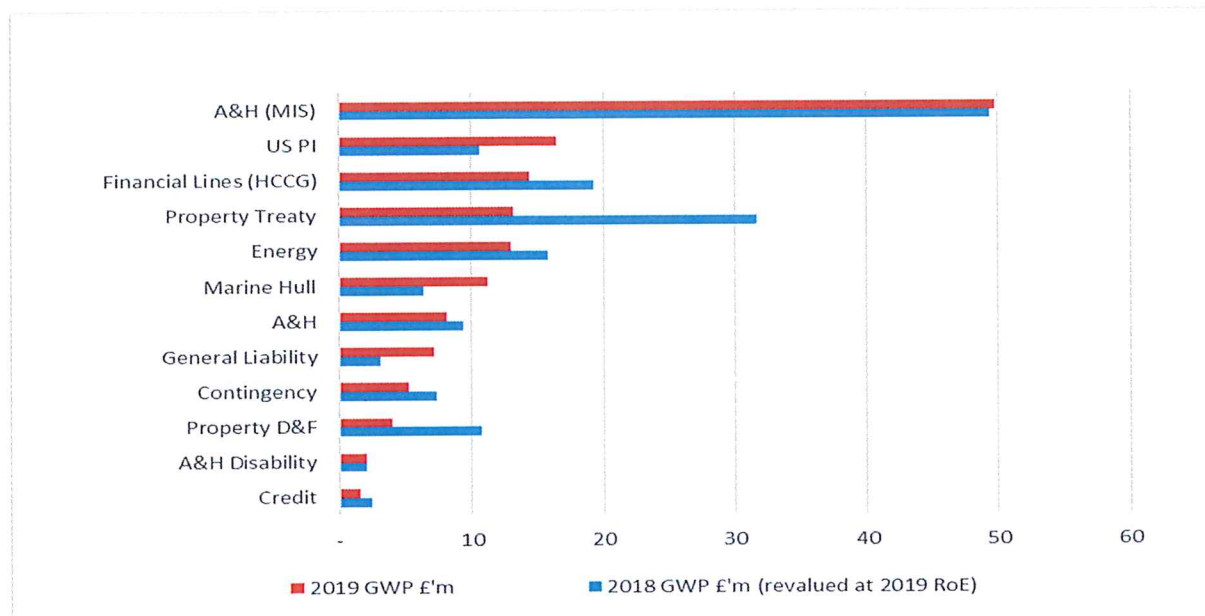
Investment return increased by £5.3m in 2019 to a £5.0m gain (2018: £0.3m loss), largely due to unrealised gains of £2.6m (2018: £2.3m loss) reflecting the US interest rate environment.

The sterling average exchange rate weakened in 2019 to £1 = \$1.28 (2018: \$1.34) and strengthened against the Euro to £1 = €1.14 (2018: €1.13).

REPORT OF THE DIRECTORS OF THE MANAGING AGENT

Gross Written Premiums

Syndicate 2019 gross written premium for its principal lines of business compared to 2018 translated at the 2019 average rate of exchange ('RoE') from US dollar functional currency are presented below:



Gross written premium totalled £146.2m compared to £168.2m in 2018 (retranslated at 2019 rates of exchange). Weakening of GBP against the USD to 1.28 (2018: 1.34) has contributed to an increase of £7.5m against an overall decrease. Excluding this, gross written premium has decreased by £22.0m. This decrease is across a number of lines including Property Treaty (£18.5m), Property D&F (£6.8m) and Financial Lines (£4.9m) offset by increases in US Professional Indemnity £5.9m and Marine Hull £4.9m.

Accident and Health

The largest line of business underwritten by the Syndicate, Accident and Health is comprised principally of the Travel Medical business written by HCCMIS. Gross written premium of £49.7m (2018: £49.4m) was flat compared to 2018 allowing for FX movements. Its short term travel medical product and student specific health plans, sold via the internet, continue to generate profitable results from expanded distribution of the product.

Property Treaty, Property D&F and Financial Lines

In 2019, clients have indicated preference for TM HCCI paper which now has licenses not previously accessible. This has been most evident in the Property Treaty, Property D&F and Financial Lines business.

US Professional Liability

US Professional Liability is comprised of legal expense and Cyber protection of the US Medical Profession written through a long standing Lloyd's coverholder. Policy 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 TM HCCI 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.

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.

REPORT OF THE DIRECTORS OF THE MANAGING AGENT

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 2.15 years (2018: 2.20 years).

Review of financial position

Financial investments of £126.3m at 31 December 2019 (2018: £124.0m) have not changed materially in 2019 after taking account of the strengthening of Sterling against the US dollar from 1.27 at 31 December 2018 to 1.31 at 31 December 2019.

Gross claims outstanding have decreased from £160.2m to £152.0m, mainly due to fewer catastrophe events and decreased Gross Written Premium. Reinsurance claims outstanding have reduced from £68.1m to £63.1m.

The Syndicate has a Member's balance of £(0.2)m as at 31 December 2019 (2018: £(4.7)m) as profits of £7.5m have been offset by a distribution of £3.3m on the closing year of account and profit on translation of £0.3m. 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 20.

Future Outlook

TM HCCI continues to consider profitable opportunities in complimentary and new lines of business, through expansion of teams, venturing into new territories and potential acquisitions. The Syndicate is an important platform within TM HCCI which helps facilitate these opportunities.

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
K Hatakeyama (Non-executive) (appointed 1 September 2019)
T J G Hervy
N I Hutton-Penman
H Ishii (Non-executive) (resigned 31 March 2019)
K L Letsinger
N C Marsh (Non-executive Chairman)
H-D Rohlf (Non-executive)
C A Scarr (Non-executive)
G R A White

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:

	2019	2018
	£'000	£'000
	(unaudited)	(audited)
Managed capacity	225,000	175,000
Fee income	150	150
Commission income	515	473
Expenses net of recharges	(57)	(94)
Other income and expenses	16	2
FX (loss)/income	(60)	76
Profit before tax	564	607
Net assets	2,706	2,242

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

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 2020, 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 financial statements. 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.

B J Cook
Director

24 February 2020

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 2019 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with 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 as at 31 December 2019, the Profit and loss account: Technical account – General business, the Profit and loss account: Non-technical account, the Statement of other comprehensive income, the Statement of changes in member's balance and the statement of cash flows for the year then ended, and the notes to the syndicate annual accounts, which include a description of the 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

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.

We have nothing to report in respect of the above matters.

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. For example, the terms of the United Kingdom's withdrawal from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the syndicate's business and the wider economy.

INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF SYNDICATE 4141

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 any form of assurance thereon.

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 Report of the Directors of the Managing Agent, we also considered whether the disclosures required by The 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.

Report of the Directors of the Managing Agent

In our opinion, based on the work undertaken in the course of the audit, the information given in the Report of the Directors of the Managing Agent for the year ended 31 December 2019 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 Report of the Directors of the Managing Agent.

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 operations, 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 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
- adequate accounting records have not been kept by the Managing Agent in respect of the syndicate; 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.



Paul Pannell (Senior statutory auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
24 February 2020

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

For the year ended 31 December 2019

	Note	2019		2018	
		£'000	£'000	£'000	£'000
Earned premiums, net of reinsurance					
Gross premiums written	6	146,156		160,694	
Outward reinsurance premiums		(24,025)		(27,585)	
Net premiums written		122,131		133,109	
Change in the provision for unearned premiums					
Gross amount	13	7,772		(5,819)	
Reinsurers' share	13	(960)		(2,169)	
Change in the net provision for unearned premiums		6,812		(7,988)	
Earned premiums, net of reinsurance			128,943		125,121
Total investment return/(loss) transferred from non-technical account			4,967		(287)
Claims incurred, net of reinsurance					
Claims paid					
Gross amount		(103,949)		(73,377)	
Reinsurers' share		32,718		7,764	
Net claims paid		(71,231)		(65,613)	
Change in the provision for claims					
Gross amount	13	5,810		17,916	
Reinsurers' share	13	(3,531)		(4,732)	
Change in the net provision for claims		2,279		13,184	
Claims incurred, net of reinsurance	7		(68,952)		(52,429)
Net operating expenses	8		(55,481)		(54,541)
Balance on the technical account for general business			9,477		17,864

All amounts relate to continuing operations.

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

For the year ended 31 December 2019

	Note	2019 £'000	2018 £'000
Balance on the general business technical account		9,477	17,864
Investment income	11	3,168	2,297
Unrealised gains on investments	11	2,594	766
Investment expenses and charges	11	(793)	(1,096)
Unrealised losses on investments	11	(2)	(2,254)
Earned investment return/(loss) transferred to general business technical account	11	(4,967)	287
Other income including value adjustments		(1,942)	(744)
Profit for the financial year		7,535	17,120

STATEMENT OF OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

	2019 £'000	2018 £'000
Profit for the financial year	7,535	17,120
Foreign currency exchange profit/(loss) on translation	254	(395)
Total recognised gains	7,789	16,725

The Profit and Loss account (technical and non-technical account) and Statement of Other Comprehensive Income should be read in conjunction with the accompanying notes.



BALANCE SHEET

As at 31 December 2019

	Note	2019 £'000	2018 £'000
ASSETS			
Investments			
Other financial investments	12	<u>126,318</u>	<u>123,955</u>
		126,318	123,955
Reinsurers' share of technical provisions			
Provision for unearned premiums	13	4,717	5,720
Claims outstanding	13	<u>63,094</u>	<u>68,145</u>
		67,811	73,865
Debtors			
Debtors arising out of direct insurance operations	14	31,097	37,076
Debtors arising out of reinsurance operations		23,040	4,103
Other debtors	15	<u>481</u>	<u>217</u>
		54,618	41,396
Other assets			
Cash at bank and in hand		<u>1,733</u>	<u>2,666</u>
		1,733	2,666
Prepayments and accrued income			
Accrued interest		365	342
Deferred acquisition costs	13	<u>13,874</u>	<u>15,683</u>
		14,239	16,025
Total assets		<u>264,719</u>	<u>257,907</u>

BALANCE SHEET

As at 31 December 2019

	Note	2019 £'000	2018 £'000
LIABILITIES			
Member's balance		(220)	(4,718)
Technical provisions			
Provision for unearned premiums	13	48,466	57,189
Claims outstanding	13	<u>152,020</u>	<u>160,180</u>
		200,486	217,369
Creditors			
Creditors arising out of direct insurance operations		1,252	950
Creditors arising out of reinsurance operations	16	13,617	10,447
Other creditors including taxation and social security	17	<u>46,796</u>	<u>31,382</u>
		61,665	42,779
Accruals and deferred Income		2,788	2,477
Total liabilities		<u>264,719</u>	<u>257,907</u>

The Balance Sheet should be read in conjunction with the accompanying notes.

The financial statements on pages 13 to 44 were approved by the Board of HCC Underwriting Agency Ltd. and signed on its behalf by



K L Letsinger
Director

24 February 2020

STATEMENTS OF CHANGES IN MEMBER'S BALANCE

For the year ended 31 December 2019

	2019	2018
	£'000	£'000
Member's balance brought forward at 1 January	(4,718)	(4,749)
Profit for the financial year	7,535	17,120
Foreign currency exchange profit/(loss) on translation	254	(395)
Profit distribution	(3,291)	(16,694)
Member's balance (receivable) carried forward at 31 December	<u>(220)</u>	<u>(4,718)</u>

STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	Note	2019	2018
		£'000	£'000
Net cash inflow from operating activities	18	3,804	12,004
Investing activities:			
Purchase of debt securities		(6,804)	(32,349)
Sale of debt securities		3,048	36,510
Investment income received		2,394	1,336
Financing activities:			
Profit distribution		(3,291)	(16,694)
Net cash (outflow)/ inflow		<u>(849)</u>	<u>807</u>
Cash and cash equivalents at beginning of year		2,666	1,751
Foreign exchange (loss)/profit on translation of brought forward balances		(84)	108
Cash and cash equivalents at end of year		<u>1,733</u>	<u>2,666</u>
Cash and cash equivalents consist of:		2019	2018
		£'000	£'000
Cash at bank and in hand		<u>1,733</u>	<u>2,666</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.

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\$ 1.3118 (2018: US\$1.2705); and
- b) Income and expenses at monthly rates during the year. The average rate for the year for Sterling was £1 = US\$1.28 (2018: US\$1.34).



NOTES TO THE FINANCIAL STATEMENTS

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 including:



NOTES TO THE FINANCIAL STATEMENTS

- 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.



NOTES TO THE FINANCIAL STATEMENTS

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 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.



NOTES TO THE FINANCIAL STATEMENTS

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 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.



NOTES TO THE FINANCIAL STATEMENTS

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 and 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.

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 £88.9m (2018: £92.0m), see Note 13 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



NOTES TO THE FINANCIAL STATEMENTS

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 £111.9m (2018: £108.3m), 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 £26.9m (2018: £33.5m).

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;
- 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.



NOTES TO THE FINANCIAL STATEMENTS

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.

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



NOTES TO THE FINANCIAL STATEMENTS

- 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 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 2019 foreign exchange rates throughout the triangle.

NOTES TO THE FINANCIAL STATEMENTS

Loss development triangles - GROSS	Underwriting year (pure YOA)									
	2011	2012	2013	2014	2015	2016	2017	2018	2019	TOTAL
Ultimate claims and cumulative payments	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
End of reporting year	49,667	28,145	27,811	30,424	34,200	32,778	80,602	45,637	36,112	
- one year later (*)	99,204	58,270	54,246	47,405	66,634	62,545	97,909	91,859		
- two years later	100,676	57,225	65,439	45,546	67,890	63,095	125,719			
- three years later	98,369	53,225	61,461	48,542	65,158	61,129				
- four years later	93,945	62,502	51,783	46,041	59,459					
- five years later	94,514	59,222	50,638	46,803						
- six years later	89,465	59,270	49,568							
- seven years later	86,676	58,627								
- eight years later	87,371									
Current estimate of ultimate claims	87,371	58,627	49,568	46,803	59,459	61,129	125,719	91,859	36,112	
Cumulative payments to date	(84,728)	(57,265)	(46,806)	(41,508)	(50,635)	(52,712)	(87,154)	(50,268)	(12,904)	
Liability recognised in the balance sheet	2,643	1,362	2,762	5,295	8,824	8,417	38,565	41,591	23,208	132,667
Provision in respect of previous years										19,353
Total provision included in the balance sheet										152,020

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



NOTES TO THE FINANCIAL STATEMENTS

Loss development triangles - NET	Underwriting year (pure YOA)									
	2011	2012	2013	2014	2015	2016	2017	2018	2019	TOTAL
Ultimate claims and cumulative payments	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
End of reporting year	41,757	22,326	23,057	28,632	25,755	30,974	48,539	36,567	32,053	
- one year later (*)	77,329	39,405	42,529	43,334	49,886	56,417	71,654	62,526		
- two years later	78,953	40,190	45,490	41,001	51,146	56,273	87,035			
- three years later	75,463	38,849	41,934	43,820	49,885	54,645				
- four years later	71,319	39,110	41,210	42,265	47,379					
- five years later	72,042	37,833	40,524	43,013						
- six years later	69,047	36,992	40,351							
- seven years later	66,046	36,954								
- eight years later	66,787									
Current estimate of ultimate claims	66,787	36,954	40,351	43,013	47,379	54,645	87,035	62,526	32,053	
Cumulative payments to date	(64,129)	(35,099)	(38,245)	(39,097)	(42,844)	(49,335)	(69,235)	(39,284)	(10,676)	
Liability recognised in the balance sheet	2,658	1,855	2,106	3,916	4,535	5,310	17,800	23,242	21,377	82,799
Provision in respect of previous years										6,127
Total provision included in the balance sheet										88,926

* 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 to the Board of Directors.

On a day-to-day basis, the Syndicate's management structure encourages organisational flexibility and adaptability, while ensuring that activities are appropriately coordinated and controlled. By focusing on the needs of customers and demonstrating both progressive and responsive abilities, staff, management and outsourced service providers are expected to excel in service and quality. Individuals and teams are also expected to transact their activities in an open and transparent way. These behavioural expectations reaffirm low risk tolerance by aligning interests to ensure that routine activities, projects and other initiatives are implemented to benefit and protect resources of both local business segments and the Syndicate as a whole.

ii. Regulatory risk

Regulatory risk is the risk arising from not complying with regulatory and legal requirements. The operations of the Syndicate are subject to legal and regulatory requirements within the jurisdictions in which it operates, and the Syndicate's compliance function is responsible for ensuring that these requirements are adhered to. Regulatory risk includes capital management risk.

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



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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 Society 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 2019 was 35% (2018: 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. Note, as part of the 2018 CIL process, Lloyd's has restrictions on the amount of Tier 2 capital that can be used to support the ECA. The restriction as at 31 December 2019 is 70% of the Syndicate's ECA can be covered by Tier 2 capital. The allowable proportion of Tier 2 capital will reduce further, to 50% for 31 December 2020. As at 31 December 2019, NameCo held adequate Tier 1 assets to meet the restrictions in place 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.

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.

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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 2019, 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 2020.

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 presentational 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 presentational 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 six main currencies: US Dollars; Sterling; Canadian Dollars; Australian Dollars; Swiss Francs 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 2019, the Syndicate managed its foreign exchange risk by periodically assessing its non-US Dollar exposures and rebalancing where appropriate.

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 2019	\$'000	\$'000	\$'000	\$'000	\$'000
Total assets	9,861	56,119	480	22,024	37,791
Total liabilities	(11,973)	(23,587)	(188)	(23,960)	(42,699)
Net assets	(2,112)	32,532	292	(1,936)	(4,908)
FX risk exposure	AUD\$	CAD\$	CHF	EUR	GBP
31 December 2018	\$'000	\$'000	\$'000	\$'000	\$'000
Total assets	18,654	49,348	475	21,542	40,359
Total liabilities	(16,435)	(19,402)	(372)	(27,502)	(43,180)
Net assets	2,219	29,946	103	(5,960)	(2,821)

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Sensitivity analysis

Fluctuations in the Syndicate's operating currencies against US dollar would result in a change to net profit and member's balances. The table below gives an indication of the impact on net profit and net assets of a percentage change in the relative strength of US dollar against the value of the non-US dollar denominated transactions.

FX risk exposure - sensitivity	Impact on profit for the financial year		Impact on net assets	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Change in exchange rate of Canadian dollar, Australian dollar, Euro, Swiss Franc and Sterling, relative to USD dollar				
US dollar weakens 30% against other currencies	(654)	(418)	(5,351)	(5,518)
US dollar weakens 20% against other currencies	(436)	(279)	(3,567)	(3,679)
US dollar weakens 10% against other currencies	(218)	(139)	(1,784)	3,008
US dollar strengthens 10% against other currencies	218	139	1,784	(3,008)
US dollar strengthens 20% against other currencies	436	279	3,567	3,679
US dollar strengthens 30% against other currencies	654	418	5,351	5,518

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 31 December 2019	<1 yr £'000	1-2 yrs £'000	2-3 yrs £'000	3-4 yrs £'000	4-5 yrs £'000	5-10 yrs £'000	Total £'000
Shares and other variable yield securities	48,442	-	-	-	-	-	48,442
Debt Securities	6,436	12,704	21,551	952	2,194	1,128	44,965
Overseas deposits	32,911	-	-	-	-	-	32,911
Total other financial investments	87,789	12,704	21,551	952	2,194	1,128	126,318
Cash at bank	1,733	-	-	-	-	-	1,733
Total	89,522	12,704	21,551	952	2,194	1,128	128,051

Investments and cash - Duration 31 December 2018	<1 yr £'000	1-2 yrs £'000	2-3 yrs £'000	3-4 yrs £'000	4-5 yrs £'000	5-10 yrs £'000	Total £'000
Shares and other variable yield securities	28,671	-	-	-	-	-	28,671
Debt securities	14,943	9,948	14,773	18,193	1,328	741	59,926
Overseas deposits	35,358	-	-	-	-	-	35,358
Total other financial investments	78,972	9,948	14,773	18,193	1,328	741	123,955
Cash at bank	2,666	-	-	-	-	-	2,666
Total	81,638	9,948	14,773	18,193	1,328	741	126,621



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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	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Shift in yield (basis points)				
100 basis point increase	(994)	(1,352)	(994)	(1,352)
50 basis point increase	(497)	(676)	(497)	(676)
50 basis point decrease	504	688	504	688
100 basis point decrease	1,008	1,376	1,008	1,376

5.4 Operational risk

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

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

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

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

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

5.5 Credit risk

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

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



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- 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 2019	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Shares and variable yield securities	16,925	29,508	2,009	-	-	-	48,442
Debt securities	18,431	7,209	19,325	-	-	-	44,965
Overseas deposits	19,085	2,713	5,601	2,722	1,550	1,240	32,911
Total other financial investments	54,441	39,430	26,935	2,722	1,550	1,240	126,318
Reinsurers' share of claims - outstanding	-	20,503	38,430	-	277	3,884	63,094
Cash at bank	-	-	1,733	-	-	-	1,733
Total	54,441	59,933	67,098	2,722	1,827	5,124	191,145

Investment and cash - credit ratings	AAA	AA	A	BBB	<BBB	Not rated	Total
31 December 2018	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Shares and variable yield securities	13,142	12,077	3,452	-	-	-	28,671
Debt securities	31,253	8,124	19,247	1,302	-	-	59,926
Overseas deposits	21,184	4,217	4,843	2,971	413	1,730	35,358
Total other financial investments	65,579	24,418	27,542	4,273	413	1,730	123,955
Reinsurers' share of claims outstanding	-	45,783	18,698	-	286	3,378	68,145
Cash at bank	-	-	-	2,666	-	-	2,666
Total	65,579	70,201	46,240	6,939	699	5,108	194,766

The Syndicate's largest counterparty exposure is £16.7m of Canadian government securities of which £5.1m was Canadian Housing Trust (2018 - £15.4m of Canadian government securities).

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:



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Financial assets – aging 31 December 2019	Not yet due	Up to 3 months past due	3 to 6 months past due	7 to 12 months past due	> 1 year past due	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Reinsurers share of claims outstanding	63,094	-	-	-	-	63,094
Insurance debtors	28,253	2,066	272	619	(113)	31,097
Reinsurance debtors	-	13,205	6,011	1,974	1,850	23,040
Other debtors	481	-	-	-	-	481
Total	91,828	15,271	6,283	2,593	1,737	117,712

Financial assets – aging 31 December 2018	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	68,145	-	-	-	-	68,145
Insurance debtors	34,872	1,491	181	457	75	37,076
Reinsurance debtors	-	866	1,326	852	1,059	4,103
Other debtors	217	-	-	-	-	217
Total	103,234	2,357	1,507	1,309	1,134	109,541

Fair value estimation

The following table presents the Syndicate's financial investments measured at fair value at 31 December 2019 and 31 December 2018 categorized into levels 1, 2 and 3, reflecting the categorisation criteria specified in FRS102.

Financial investments – pricing basis 31 December 2019	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Shares and other variable yield securities	-	48,442	-	48,442
Debt securities	3,241	41,724	-	44,965
Overseas deposits	11,197	21,714	-	32,911
Total	14,438	111,880	-	126,318

Financial investments – pricing basis 31 December 2018	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Shares and other variable yield securities	-	28,671	-	28,671
Debt securities	3,246	56,680	-	59,926
Overseas deposits	12,378	22,980	-	35,358
Total	15,624	108,331	-	123,955

FRS102 defines the disclosure of investments levels as follows:

Level 1 – quoted prices in an active market.

These comprise 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.h.



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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 2019 or 31 December 2018.

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 2019 and 2018:

Financial liabilities – projected cash flows	Within 1	1-3 years	3-5 years	>5 years	Total
31 December 2019	year £'000	£'000	£'000	£'000	£'000
Net claims outstanding	39,991	28,196	11,044	9,695	88,926
Creditors from direct insurance operations	1,252	-	-	-	1,252
Creditors from reinsurance operations	13,617	-	-	-	13,617
Other creditors	46,796	-	-	-	46,796
Total	101,656	28,196	11,044	9,695	150,591

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Financial liabilities – projected cash flows	Within 1	1-3 years	3-5 years	>5 years	Total
31 December 2018	year £'000	£'000	£'000	£'000	£'000
Net claims outstanding	43,497	30,244	9,900	8,394	92,035
Creditors from direct insurance operations	950	-	-	-	950
Creditors from reinsurance operations	10,447	-	-	-	10,447
Other creditors	31,382	-	-	-	31,382
Total	86,276	30,244	9,900	8,394	134,814

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

Investments and cash - maturity	Within	1-3 years	3-5 years	>5 years	Total
31 December 2019	1 year	£'000	£'000	£'000	£'000
	£'000	£'000	£'000	£'000	£'000
Shares and other variable yield securities	48,442	-	-	-	48,442
Debt security	6,130	34,561	3,146	1,128	44,965
Overseas Deposits	32,911	-	-	-	32,911
Total other financial investments	87,483	34,561	3,146	1,128	126,318
Cash at bank	1,733	-	-	-	1,733
Total	89,216	34,561	3,146	1,128	128,051

Investments and cash - maturity	Within	1-3 years	3-5 years	>5 years	Total
31 December 2018	1 year	£'000	£'000	£'000	£'000
	£'000	£'000	£'000	£'000	£'000
Shares and other variable yield securities	28,671	-	-	-	28,671
Debt security	12,674	23,791	22,337	1,124	59,926
Overseas deposits	35,358	-	-	-	35,358
Total other financial investments	76,703	23,791	22,337	1,124	123,955
Cash at bank	2,666	-	-	-	2,666
Total	79,369	23,791	22,337	1,124	126,621

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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 7).

	Gross premiums written £'000	Gross premiums earned £'000	Gross claims incurred £'000	Gross operating expenses £'000	Reinsurance balance £'000	Net Underwriting result £'000
2019						
Direct insurance:						
Accident and health	54,739	56,487	(26,797)	(23,709)	(130)	5,851
Marine aviation and transport	17,073	17,783	(22,882)	(7,613)	5,100	(7,612)
Fire and other damage to property	3,191	5,736	(2,424)	(1,742)	(1,768)	(198)
Third party liability	34,786	32,420	(20,119)	(11,681)	(4,984)	(4,364)
Miscellaneous	7,503	7,717	8,577	(2,119)	(6,517)	7,658
Total direct	117,292	120,143	(63,645)	(46,864)	(8,299)	1,335
Reinsurance assumed	28,864	33,785	(34,494)	(8,617)	12,501	3,175
Total	146,156	153,928	(98,139)	(55,481)	4,202	4,510
Investment return						4,967
Technical account						9,477

	Gross premiums written £'000	Gross premiums earned £'000	Gross claims incurred £'000	Gross operating expenses £'000	Reinsurance balance £'000	Net Underwriting result £'000
2018						
Direct insurance:						
Accident and health	53,054	52,157	(25,446)	(23,315)	(240)	3,156
Marine aviation and transport	15,581	15,717	(12,490)	(6,418)	(1,737)	(4,928)
Fire and other damage to property	8,934	7,420	6,988	(2,693)	(11,719)	(4)
Third party liability	29,888	28,784	(10,250)	(7,753)	(3,792)	6,989
Miscellaneous	10,353	10,061	(8,220)	(2,944)	(2,987)	(4,090)
Total direct	117,810	114,139	(49,418)	(43,123)	(20,475)	1,123
Reinsurance assumed	42,884	40,736	(6,043)	(11,418)	(6,247)	17,028
Total	160,694	154,875	(55,461)	(54,541)	(26,722)	18,151
Investment return						(287)
Technical account						17,864

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

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The geographical analysis of gross premiums written by destination is:

	2019	2018
	£'000	£'000
UK	38,134	20,223
Other EU countries	5,775	4,236
Rest of the world	102,247	136,235
Total	146,156	160,694

7. CLAIMS INCURRED, NET OF REINSURANCE

Net claims incurred include prior year reserve releases totaling £7.9m (2018: £14.2m release) on an accident year basis.

8. NET OPERATING EXPENSES

	2019	2018
	£'000	£'000
Acquisition costs	43,515	43,161
Change in deferred acquisition costs	1,476	(1,520)
Reinsurers' commissions and profit participation	(5,465)	(4,941)
Administrative expenses (see table below)	15,955	17,841
	55,481	54,541

	2019	2018
	£'000	£'000
Administrative expenses:		
Wages and salaries	2,561	2,755
Social security costs	363	375
Other pension costs	89	120
Total staff costs	3,013	3,250
Personal expenses	1,543	1,264
Other expenses	11,399	13,327
	15,955	17,841

Total Commissions for direct insurance amounted to £31.7m (2018: £25.9m). In addition £4.7m (2018: £7.9m) of commission has been paid in relation to related parties.

The average number of direct underwriting staff (excluding directors) working for the Syndicate during the year was thirteen (2018: twelve).

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.

NOTES TO THE FINANCIAL STATEMENTS

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.

	2019	2018
	£'000	£'000
Aggregate emoluments	837	1,156
Pension contributions	1	1
	<u>838</u>	<u>1,157</u>

Included in aggregate emoluments above is £167,597 (2018: £312,301) for the services of the Active Underwriter. Pension contributions for the Active Underwriter totalled £nil (2018: £nil). Pension benefits are accruing to one director (2018: one) under the Group's defined contribution scheme.

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

	2019	2018
	£'000	£'000
Aggregate emoluments	389	446
Pension contributions	-	-
	<u>389</u>	<u>446</u>

10. AUDITOR'S REMUNERATION

The total remuneration payable by the Company, excluding VAT, to its auditors PricewaterhouseCoopers LLP, in respect of the audit of the Syndicate undertakings is detailed below:

	2019	2018
	£'000	£'000
Fees payable for the audit of the Syndicate's financial statements	185	171
Fees payable for audit-related assurance services	59	55
Fees payable for non-audit services	139	127
	<u>383</u>	<u>353</u>

NOTES TO THE FINANCIAL STATEMENTS

11. INVESTMENT INCOME

	2019	2018
	£'000	£'000
Investment income:		
Income from financial investments at fair value through profit or loss	3,154	2,078
Gains on the realisation of financial investments at fair value through profit or loss	14	219
	<u>3,168</u>	<u>2,297</u>
Investment expenses and charges:		
Investment management expense	(100)	(128)
Losses on the realisation of financial investments at fair value through profit or loss	(693)	(968)
	<u>(793)</u>	<u>(1,096)</u>
Net unrealised losses on investments:		
Unrealised gains on financial investments at fair value through profit or loss	2,594	766
Unrealised losses on financial investments at fair value through profit or loss	(2)	(2,254)
	<u>2,592</u>	<u>(1,488)</u>
Total investment return	<u>4,967</u>	<u>(287)</u>
Profit/(Loss) on investments transferred to the technical account	<u>4,967</u>	<u>(287)</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.

	2019			2018		
	Return £'000	Avg Fund £'000	Avg Yield %	Return £'000	Avg Fund £'000	Avg Yield %
Australian Dollars	271	10,193	2.7 %	219	10,400	2.1 %
Canadian Dollars	1,900	36,734	5.2 %	(919)	35,409	(2.6) %
Euros	(3)	1,221	(0.2) %	(60)	2,131	(2.8) %
Sterling	524	11,493	4.6 %	(362)	11,829	(3.1) %
United States Dollars	2,275	64,831	3.5 %	835	61,668	1.4 %
	<u>4,967</u>	<u>124,472</u>	<u>3.99 %</u>	<u>(287)</u>	<u>121,437</u>	<u>(0.24) %</u>

12. OTHER FINANCIAL INVESTMENTS

	Fair value		Book cost	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Shares and other variable yield securities and units in unit trusts	48,442	28,671	48,442	28,671
Debts securities and other fixed income securities	44,965	59,926	44,350	60,261
Overseas deposits as investments	32,911	35,358	32,911	35,358
	<u>126,318</u>	<u>123,955</u>	<u>125,703</u>	<u>124,290</u>

Of the above, £14.4m (2018: £15.7m) is listed on a recognised exchange (see note 5.5 pricing basis level 1).

NOTES TO THE FINANCIAL STATEMENTS

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.

13. TECHNICAL PROVISIONS

	Provisions for unearned premiums	Claims outstanding - reported claims	Claims outstanding - incurred but not reported claims	Claims outstanding - Total	Deferred acquisition costs (1)	Net technical liabilities
	£'000	£'000	£'000	£'000	£'000	£'000
Gross of reinsurance						
At 1 January 2019	57,189	106,892	53,288	160,180	15,683	201,686
Exchange adjustments	(951)	(2,300)	(50)	(2,350)	(333)	(2,968)
Movement in provision	(7,772)	(15,612)	9,802	(5,810)	(1,476)	(12,106)
At 31 December 2019	48,466	88,980	63,040	152,020	13,874	186,612
Reinsurance						
At 1 January 2019	5,720	50,175	17,970	68,145	1,616	72,249
Exchange adjustments	(43)	(1,245)	(275)	(1,520)	(15)	(1,548)
Movement in provision	(960)	(6,052)	2,521	(3,531)	(217)	(4,274)
At 31 December 2019	4,717	42,878	20,216	63,094	1,384	66,427
Net						
At 31 December 2019	43,749	46,102	42,824	88,926	12,490	120,185
At 31 December 2018	51,469	56,717	35,318	92,035	14,067	129,437

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

14. DEBTORS ARISING OUT OF DIRECT INSURANCE OPERATIONS

	2019 £'000	2018 £'000
Due from intermediaries within one year	31,097	37,076

15. OTHER DEBTORS

	2019 £'000	2018 £'000
Other including taxes	481	217

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.

16. CREDITORS ARISING OUT OF REINSURANCE OPERATIONS

	2019 £'000	2018 £'000
Due to third parties	13,617	10,447

This balance comprises reinsurance premiums payable to third party reinsurers. All amounts are due within one year.

NOTES TO THE FINANCIAL STATEMENTS

17. OTHER CREDITORS INCLUDING TAXATION AND SOCIAL SECURITY

	2019	2018
	£'000	£'000
Balance with group companies	46,796	31,382

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.

18. NET CASH INFLOW FROM OPERATING ACTIVITIES

	2019	2018
	£'000	£'000
Profit for the financial year	7,535	17,120
Decrease in net technical provisions	(6,311)	(9,129)
Increase in debtors	(14,526)	(7,091)
Decrease/(Increase) in prepayments and accrued income	1,282	(1,628)
Increase in creditors	20,233	12,089
Increase in accruals and deferred income	390	367
Investment (profit)/loss	(4,967)	287
Other movements – foreign currency gain/(loss) on retranslation	168	(11)
Net cash inflow from operating activities	3,804	12,004

19. 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 (2018: £150,000) from its Managing Agent, HCCUA. HCCUA is a wholly owned subsidiary of HCC Intermediate Holdings Inc. An amount of £0.1m (2018: £0.4m) was due to HCCUA at the balance sheet date. In addition, £11.4m (2018: £10.8m) was paid to HCC Service Company Inc. (UK branch) for expenses paid during the year on behalf of the Syndicate and an amount of £1.1m was due to (2018: £2.7m 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 £18.1m (2018: £1.2m 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 £0.1m (2018: £0.6m due from) 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 and HCC Medical Insurance Services. The arrangements produced:



NOTES TO THE FINANCIAL STATEMENTS

	2019	2018
	£'000	£'000
Premium income	70,718	77,458
Net Commission expense	20,769	20,385
Balance due from the Syndicate at year end	3,016	1,075

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

	2019	2018
	£'000	£'000
Gross premium written	274	936
Acquisition costs	(57)	(160)
Balance due to the Syndicate at year end	-	-

- g. The following directors are also directors of HCCII, a wholly owned subsidiary of the HCC Group:

- S A Button
- B J Cook
- K Hatakeyama
- T J G Hervy
- N I Hutton-Penman
- K L Letsinger
- N C Marsh
- H-D Rohlf
- C A Scarr
- G R A White

20. 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.

21. PENSION COMMITMENTS

The Group's international operations operate a Group Self Invested Personal Pension Scheme. The assets of the pension scheme are held separately from those of the Group's international operations in an independently administered fund. The pension cost charged to the Syndicate Profit and Loss Account for the year was £89k (2018: £120k). The accrued pension cost outstanding as at 31 December 2019 was £nil (2018: £nil).



NOTES TO THE FINANCIAL STATEMENTS

22. 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.

23. POST BALANCE SHEET EVENTS

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