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**Hardy (Underwriting Agencies) Limited:
Syndicate 382
2020 Annual Report and Financial Statements**



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Directors and administration

Managing agent

Hardy (Underwriting Agencies) Limited

Executive directors

D Brosnan (resigned 31 August 2020)

P Hamer

C Kearney

J Rehman

D Stevens

A Williams

Non-executive directors

J Anderson (resigned 25 February 2020)

A D'Hulster

J Gonzalez (appointed 31 March 2020)

H Thomas

R Thomson

D Worman

Managing agent's registered office

20 Fenchurch Street

London EC3M 3BY

Managing agent's registered number

1264271

Active underwriter

C Day

Bankers

Citibank N.A.

Barclays Bank plc

Investment managers

Goldman Sachs Asset Management International

Registered auditor

Deloitte LLP

Statutory Auditor

London, United Kingdom

Reporting actuaries

KPMG Audit plc

Strategic report

Introduction

The directors of Hardy (Underwriting Agencies) Limited (“HUA”) present their strategic report for the year ended 31 December 2020. The audited financial statements are prepared in accordance with the Insurance Accounts Directive (Lloyd’s Syndicate and Aggregate Accounts) Regulation 2008 (“the Regulations”) and applicable Accounting Standards in the United Kingdom, including FRS 102 and FRS 103.

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

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

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

CNA is the one of the largest commercial property and casualty insurance companies in the United States of America (“U.S.”). As of 31 December 2020, it has approximately 5,800 employees and its insurance products include commercial property and casualty coverages, including surety. CNA’s products and services are primarily marketed through independent agents, brokers and managing general underwriters to a wide variety of customers, including small, medium and large businesses, insurance companies, associations, professionals and other groups.

Overview of results

The Syndicate reported a loss for 2020 of £13.4 million compared to a profit of £10.9 million in 2019. The calendar year combined ratio in 2020 was 111.0% (2019: 98.9%).

The Syndicate reported a reduction in gross written premiums of 12.3% for the year to £277.4 million compared to £316.3 million for 2019. The decrease was driven primarily by planned strategic exits from certain lines of business.

Net written premiums in 2020 of £229.5 million decreased from the prior year of £271.4 million. A small increase in ceded written premiums was recorded as a result of planned changes to the Syndicate’s reinsurance programme. The Syndicate regularly evaluates its reinsurance programme to ensure it is appropriate, given its overall risk appetite.

On a calendar year basis the net loss ratio of 74.5% represented a 12.4% deterioration over the prior year ratio of 62.1%. This deterioration was driven by increased loss activity on certain lines of business as well as by the impact of losses related to the COVID-19 pandemic. The Syndicate recorded a relatively small amount of unfavourable loss development relating to prior accident years. Losses arising from catastrophes in 2020 were relatively consistent with the prior year.

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

Syndicate operating expenses are made up of commissions paid to brokers and general administrative expenses. In addition, HUA charged the Syndicate a fixed fee of 0.075% of allocated underwriting capacity.

Strategic report - continued

Overview of results - continued

The expense ratio for the year of 36.5% represented an improvement compared to the prior year ratio of 36.8%.

The Syndicate continues to maintain a disciplined approach to expense management whilst making further improvements to the technology that supports the business.

Investment returns contributed £8.9 million (2019: £12.3 million) to the result in 2020 with a decrease being driven primarily by movements in unrealised losses. The Syndicate invests in shorter duration, high quality fixed income government and corporate securities. The Syndicate's investment manager operates within investment guidelines and strategy determined by the Board of directors.

The Syndicate transacts insurance business in five main currencies (Pound sterling, Euro, US dollars, Canadian dollars and Japanese yen), and manages the currency mix of its assets to broadly match liabilities and mitigate the economic effects of exchange rate volatility. During the year the Syndicate recorded profits on foreign exchange of £4.2 million (2019: loss of £4.6 million).

Key performance indicators

The Syndicate uses a range of key performance indicators ("KPIs") to determine how well it is performing against its objectives and overall strategy.

The following KPIs are considered most relevant to measuring the Syndicate's performance in 2020. The loss ratio is derived by taking claims incurred, net of reinsurance over earned premiums, net of reinsurance. The expense ratio references net operating expenses as a percentage over earned premiums, net of reinsurance.

	2020 £m	2019 £m
Gross written premiums	277.4	316.3
Net written premiums	229.5	271.4
(Loss)/profit for the financial year	(13.4)	10.9
Loss ratio	74.5%	62.1%
Expense ratio	36.5%	36.8%
Combined ratio	111.0%	98.9%

Financial position

Overview of financial position and capital requirements

For the 2018, 2019, 2020 and 2021 years of account, HUL provides 100% of the total underwriting capacity of £330.0 million.

The Funds at Lloyd's ("FAL") of the Syndicate are determined using HUA's Solvency II internal model, which operates under requirements prescribed by Lloyd's and the Solvency II regime. The capital required by HUL to support the Syndicate's underwriting capacity is 70.1% of Syndicate capacity (2019: 61.2%).

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

Investments

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

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

Strategic report - continued

Business operations

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

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

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

Corporate governance

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

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

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

The Syndicate is committed to ensuring that its strategy, leadership, decision making and control framework are all central to the reasonable expectations of, and reflect the fair treatment of, its policyholders.

Future developments

Targeted underwriting actions have been taken by the Syndicate to improve overall levels of profitability. These actions included both reinsurance and underwriting actions. The Syndicate has ceased underwriting property treaty, marine hull and construction all risk/erection all risk. The Syndicate also ceased underwriting business through its Singapore and Lloyd's China channels. Both actions resulted in reduced levels of net written premiums in 2019 and 2020 with the aim of improving overall levels of profitability. The Syndicate will continue to closely manage and monitor its run-off portfolios.

Strategic report - continued

Brexit and Lloyd's Part VII transfer

Lloyd's of London established an insurance company in Brussels as a subsidiary of the corporation as of 1 January 2019. This company ensures that the Lloyd's market can continue to underwrite and pay claims in the European Union ("EU") after the United Kingdom ("UK") left the EU ("Brexit"). Lloyd's Insurance Company S.A. ("Lloyd's Europe") has an outsourcing agreement with each managing agent to delegate and undertake underwriting on its behalf. The impact of Brexit on the Syndicate is minimal due to the limited amount of EEA business and the ability to utilise Lloyd's Europe. During 2019 Lloyd's commenced a Part VII transfer of Brexit impacted policies for the whole Lloyd's market. The Syndicate is actively participating in this process.

On 30 December 2020, the Members and former Members of the Syndicate, as comprised for each of the relevant years of account between 1993 and April 2019 (or October 2020 in the case of German reinsurance), transferred all relevant policies (and related liabilities) underwritten by them for those years of account to Lloyd's Europe, in accordance with Part VII of the Financial Services and Markets Act 2000. On the same date, the Members of the Syndicate entered into a 100% Quota Share Reinsurance Agreement whereby Lloyd's Europe reinsured all risks on the same policies back to the relevant open years of account of the Syndicate which wrote the transferring policies and/or inherited liabilities on transferring policies through Reinsurance to Close of earlier years of account.

Following the sanction of the Part VII scheme by the High Court on 25 November 2020, the Part VII scheme took effect on 30 December 2020 and the Members and former Members of the Syndicate transferred the impacted EEA policies and related liabilities to Lloyd's Europe, together with cash of \$51.7 million. On the same date, under the Reinsurance Agreement, Lloyd's Europe reinsured the same risks back, together with an equal amount of cash of \$51.7 million. The combined effect of the two transactions had no economic impact for the Syndicate, and accordingly there is no impact on the Syndicate's income statement or balance sheet.

Current year underwriting results for the transferred policies have been reported in the same classes of business as in prior years, as the effective date of the transfer was 30 December 2020, and in line with Society of Lloyd's guidance no movements were processed on these policies on 31 December 2020. In future years, results relating to these risks will be reported under the Inwards Reinsurance class of business, reflecting the new contractual arrangement with Lloyd's Europe.

Principal risks and uncertainties

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

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

Strategic risk

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

Strategic report - continued

Principal risks and uncertainties - continued

Insurance risk

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

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

Financial risk – Credit, Market and Liquidity

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

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

Operational risk

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

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

Emerging risks

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

Climate change

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

Strategic report - continued

COVID-19

The global spread of COVID-19 is having a significant impact on the insurance industry, the global economy, financial markets and society as a whole.

The Syndicate continues to actively manage the impact of this situation to ensure that its day-to-day operations are continuing effectively. A Pandemic Crisis Management Team consisting of senior leaders from across the business was established to maintain business resilience and effective communications. The Syndicate implemented certain temporary measures in 2020 in response to COVID-19, including a working from home policy. However, the business remains fully operational and able to support the needs of customers and other stakeholders.

The Syndicate's 2020 result includes the earned impact from COVID-19 on its insurance contracts. The Syndicate has performed a detailed review of its exposures to COVID-19 related losses and considers that loss reserves established in this regard are appropriate. Management have also considered the impact of COVID-19 on the Syndicate's financial strength and ability to operate effectively. This included the review of potential indicators, including investment valuations, future revenue and profitability, cash flow, claims potential and access to capital, as well as other operational considerations. Management specifically considered the past and future impacts of COVID-19 on the Syndicate's business. Based on this assessment and as at the date of approval of this report, the directors do not consider that COVID-19 will impact the Syndicate's ability to continue operating on a going concern basis.

Going concern

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

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

Approval

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

J Rehman
Director
20 Fenchurch Street,
London EC3M 3BY
4 March 2021

Report of the directors of the managing agent

The directors of HUA, the managing agent of Syndicate 382, present their report and audited financial statements for the year ended 31 December 2020.

Directors

The directors who have held office in HUA since 1 January 2020 and up to the date of signing are as follows:

Executive directors

D Brosnan (resigned 31 August 2020)
 P Hamer
 C Kearney
 J Rehman
 D Stevens
 A Williams

Non-executive directors

J Anderson (resigned 25 February 2020)
 A D'Hulster
 J Gonzalez (appointed 31 March 2020)
 H Thomas
 R Thomson
 D Worman

Statement of managing agent's responsibilities

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

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

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

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

Results

In 2020 the Syndicate reported a loss of £13.4 million (2019: profit of £10.9 million).

Report of the directors of the managing agent - continued

Auditor

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

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

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

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

Information included in strategic report

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

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

Approval

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

J Rehman
Director
20 Fenchurch Street,
London EC3M 3BY
4 March 2021

Independent Auditor's report to the member of Syndicate 382

Report on the audit of the Syndicate annual financial statements

Opinion

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

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2020 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

We have audited the syndicate annual financial statements which comprise:

- the profit and loss account;
- the statement of changes in member balances;
- the balance sheet;
- the statement of cash flows; and
- the related notes to the financial statements 1 to 17.

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

Basis for opinion

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

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

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the managing agent's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the syndicate's ability to continue in operations for a period of at least twelve months from when the syndicate financial statements are authorised for issue.

Our responsibilities and the responsibilities of the managing agent with respect to going concern are described in the relevant sections of this report.

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

continued

Other information

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

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

We have nothing to report in this regard.

Responsibilities of managing agent

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

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

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

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

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

Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We considered the nature of the syndicate and its control environment, and reviewed the syndicate's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management about their own identification and assessment of the risks of irregularities.

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

continued

We obtained an understanding of the legal and regulatory frameworks that the syndicate operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and the Lloyd's Syndicate Accounting Byelaw (no. 8 of 2005); and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the syndicate's ability to operate or to avoid a material penalty. These included the requirements of Solvency II.

We discussed among the audit engagement team, including our internal actuarial and IT specialists, regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

As a result of performing the above, we identified the greatest potential for fraud in the following areas, and our specific procedures performed to address them are described below:

- Estimation of pipeline premiums requires significant management judgement and therefore there is potential for management bias through manipulation of core assumptions. In response our testing included, on a sample basis, comparing management's estimates on prior year binders against actual premiums received as well as to historical experience on similar binders.
- Valuation of technical provisions includes assumptions and methodology requiring significant management judgement and involves complex calculations, and therefore there is potential for management bias. There is also a risk of overriding controls by making late adjustments to the technical provisions. In response to these risks we involved our actuarial specialists to develop independent estimates of the technical provisions and we tested the late journal entries to technical provisions.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management and in-house legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with Lloyd's.

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

continued

Report on other legal and regulatory requirements

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

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

- the information given in the strategic report of the directors of the managing agent for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report of the directors of the managing agent has been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the syndicate and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report of the directors of the managing agent

Matters on which we are required to report by exception

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

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

We have nothing to report in respect of these matters.

Use of our report

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

Adam Ely FCA (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

London, United Kingdom

4 March 2021

Profit and loss account - Technical account - General business

	Notes	2020 £'000	2019 £'000
Gross written premiums	4	277,433	316,334
Outward reinsurance premiums		(47,934)	(44,940)
<hr/>			
Premiums written, net of reinsurance		229,499	271,394
Change in provision for unearned premiums			
– gross amount		10,937	30,984
– reinsurers' share		(1,612)	(2,375)
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Earned premiums, net of reinsurance		238,824	300,003
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Claims paid			
– gross amount		186,777	217,628
– reinsurers' share		(53,195)	(29,940)
<hr/>			
Net claims paid		133,582	187,688
Change in the provision for claims:			
– gross amount		21,961	(1,146)
– reinsurers' share		22,378	(364)
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Change in the net provision for claims		44,339	(1,510)
Claims incurred, net of reinsurance		177,921	186,178
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Net operating expenses	6	87,209	110,546
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Balance on the technical account for general business		(26,306)	3,279

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

Profit and loss account - Non-technical account

Notes	2020 £'000	2019 £'000
Balance on the technical account for general business	(26,306)	3,279
Income from investments	6,690	7,970
Gains on the realisation of investments	431	223
Losses on the realisation of investments	(623)	(1,018)
Unrealised gains on investments	2,417	2,420
Unrealised losses on investments	140	2,940
Investment expenses and charges	(191)	(198)
Investment income	8,864	12,337
Foreign exchange differences	4,199	(4,637)
Other expenses	(113)	(93)
(Loss)/profit for the financial year	(13,356)	10,886

All the amounts above are in respect of continuing operations.

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

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

Statement of changes in member balances

	2020 £'000	2019 £'000
Balance at start of year	(55,623)	(77,665)
Total comprehensive (loss)/profit for the year (Loss)/profit for the financial year	(13,356)	10,886
	(68,979)	(66,779)
Transactions with member, recorded directly in member balances:		
- Receipt of distribution of closed year losses	13,731	11,156
Balance at end of year	(55,248)	(55,623)

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

Balance sheet

Assets	Notes	2020 £'000	2019 £'000
Investments - other financial investments	9	273,892	256,152
Reinsurers' share of provision for unearned premiums	13	17,585	19,347
Reinsurers' share of claims outstanding	13	101,695	123,860
Reinsurers' share of technical provisions		119,280	143,207
Debtors arising out of direct insurance operations	10	95,786	101,854
Debtors arising out of reinsurance operations		20,001	3,234
Other debtors	11	3,219	4,305
Debtors – amounts falling due within one year		119,006	109,393
Debtors arising out of direct insurance operations	10	41	8
Debtors arising out of reinsurance operations		1,350	-
Debtors – amounts falling due after one year		1,391	8
Cash at bank and in hand		27,061	26,767
Overseas deposits	12	51,991	45,131
Other assets		79,052	71,898
Accrued interest		1,342	1,411
Deferred acquisition costs		26,224	33,288
Prepayments and other accrued income		71	-
Prepayments and accrued income		27,637	34,699
Total assets		620,258	615,357

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

Balance sheet - continued

Liabilities	Notes	2020 £'000	2019 £'000
Members balances		(55,248)	(55,623)
Provision for unearned premiums	13	128,217	141,921
Claims outstanding	13	498,085	482,119
Technical provisions		626,302	624,040
Creditors arising out of direct insurance operations		1,964	6,125
Creditors arising out of reinsurance operations		34,879	29,789
Other creditors	14	8,726	6,840
Creditors – amounts falling due within one year		45,569	42,754
Creditors arising out of direct insurance operations		2	-
Creditors arising out of reinsurance operations		-	851
Creditors – amounts falling after one year		2	851
Reinsurers' share of deferred acquisition costs		3,334	3,295
Accruals and deferred income		299	40
Other payables		3,633	3,335
Total liabilities		620,258	615,357

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

These financial statements were approved by the Board of directors of HUA on 4 March 2021 and signed on its behalf by:

D Stevens
Director

Statement of cash flows

Reconciliation of operating profit to net cash outflows from operating activities

	2020 £'000	2019 £'000
Operating activities		
(Loss)/profit for the financial year	(13,356)	10,886
Adjustments for:		
Investment income	(8,864)	(12,337)
Change in fair value of financial investments	(2,787)	1,485
Effect of exchange rate changes on financial investments	4,955	8,701
Change in deferred acquisition costs	7,103	7,608
Change in reinsurance assets	23,927	5,939
Change in insurance liabilities	2,262	(46,515)
Change in other assets	(17,858)	7,164
Change in other liabilities	2,225	(9,332)
Net cash flows from operating activities	(2,393)	(26,401)
Investing activities		
Purchase of debt securities and other fixed income securities	(73,732)	(74,588)
Purchase of shares and other variable yield securities	(3,010)	(871)
Proceeds from sale of debt securities and other fixed income securities	58,111	70,591
Interest and dividends received	6,811	7,762
Net cash flows (used in)/from investing activities	(11,820)	2,894
Net transfers to the member in respect of underwriting participations	13,731	11,156
Net decrease in cash and cash equivalents	(482)	(12,351)
Cash and cash equivalents at 1 January	26,767	39,416
Effect of foreign exchange rate fluctuations on cash and cash equivalents	776	(298)
Cash and cash equivalents at 31 December	27,061	26,767

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

Notes to the financial statements

1. Accounting policies

Basis of accounting

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

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

Basis of preparation

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

The directors have a reasonable expectation that the Syndicate and HUA have adequate resources to continue in operational existence for the foreseeable future. Therefore they continue to adopt the going concern basis of accounting in preparing the financial statements. Further details can be found on page 8 of the strategic report.

Disclosure exemption

The Syndicate is included in the consolidated financial statements of CNAF, a company incorporated in the United States of America, whose consolidated financial statements are publicly available. Consequently, the Syndicate has, in compliance with FRS 102, therefore taken advantage of the disclosure exemptions available to it in relation to related party transactions.

Foreign currencies

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

Basis of accounting for underwriting activities

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

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

Premiums

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

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

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

Notes to the financial statements - continued

1. Accounting policies - continued

Unearned premiums

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

Claims incurred

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

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

Claims outstanding and related reinsurance recoveries

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

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

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

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

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

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

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

Notes to the financial statements - continued

1. Accounting policies - continued

Deferred acquisition costs

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

Liability adequacy test

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

Investment return

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

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

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

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

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

Tax

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

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

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

Investments

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

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

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

Notes to the financial statements - continued

1. Accounting policies - continued

Cash and cash equivalents

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

Deposits with ceding undertakings

Cash deposited with any ceding undertakings to provide liquidity to cover insurance liabilities remain the property of the Syndicate and are valued at fair value.

Insurance and other debtors

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

Other liabilities

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

2. Critical accounting judgements and key sources of estimation uncertainty

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

Estimates

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

Outstanding claims provisions and related reinsurance recoveries

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

The most critical gross estimate included within the Syndicate's balance sheet is the estimate for losses incurred but not reported ("IBNR") – both gross and reinsurers' share. This estimate is critical as it outlines the current liability for future expenses expected to be incurred in relation to claims and related recoveries from reinsurers. The total estimate as at 31 December 2020 is £240.2 million (2019: £220.2 million) and is included within technical provisions in the balance sheet. The estimate for reinsurers' share of IBNR is 60.6 million (2019: £68.4 million).

The Syndicate's estimate for unallocated loss adjustment expenses is based on an actuarial study at 31 December 2020 was £8.0 million (2019: £7.7 million).

Gross written premiums

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

Notes to the financial statements - continued

2. Critical accounting estimates and judgements - continued

Critical accounting judgements

There are no critical accounting judgements

3. Risk management

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

Risk definition

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

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

Risk statement

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

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

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

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

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

Notes to the financial statements - continued

3. Risk management - continued

Risk Appetite

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

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

The strategic appetite statements provide high level guidance under:

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

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

Own Risk and Solvency Assessment ("ORSA")

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

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

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

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

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

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

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

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

Notes to the financial statements - continued

3. Risk management - continued

Emerging and developing risk

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

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

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

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

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

Risk quantification and modelling

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

Capital management

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

The Syndicate's corporate member is required to hold capital at Lloyd's which is held in trust in FAL. The amount of capital required to be provided as FAL for the 2021 Year of Account was determined by the Syndicate and Lloyd's on a Solvency II basis, using an Internal Model. This is a risk-based capital assessment based upon the Syndicate's specific circumstances.

Insurance risk

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

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

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

Notes to the financial statements - continued

3. Risk management - continued

Underwriting risk

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

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

Control of aggregating exposures

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

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

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

Management of reinsurance risk

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

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

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

Notes to the financial statements - continued

3. Risk management - continued

Reserve risk

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

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

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

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

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

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

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

	Gross of reinsurance	Net of reinsurance	Gross of reinsurance	Net of reinsurance
	2020	2020	2019	2019
	£'000	£'000	£'000	£'000
Impact of a 1% variance in:				
Claims liability	4,981	3,964	4,821	3,583
Combined ratio	2,884	2,388	3,473	3,000
Impact on net assets of a 1% variance in:				
Claims liability	4,981	3,964	4,821	3,583
Combined ratio	2,884	2,388	3,473	3,000

Notes to the financial statements - continued

3. Risk management - continued

Financial risk

Financial risks can be broken down into the following categories:

Credit risk

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

The exposure to credit risk from holdings of debt and other fixed income securities, is managed by adherence to the Syndicate's investment guidelines which detail minimum issuer credit quality, duration limits, and the maximum value of individual holdings. The average Standard & Poor's ("S&P") credit rating of the Syndicate's debt and other fixed income securities remained high throughout the year, and at 31 December 2020 was "A" (2019: "A").

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

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

The assets bearing credit risk are summarised below:

	2020 £'000	2019 £'000
Other financial investments	273,892	256,152
Reinsurers' share of claims outstanding	101,695	123,860
Debtors arising out of direct insurance operations	95,827	101,862
Cash at bank and in hand	27,061	26,767
Overseas deposits	51,991	45,131
Debtors arising out of reinsurance operations	21,351	3,234
Other debtors	3,219	4,305
Total assets bearing credit risk	575,036	561,311

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

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

Notes to the financial statements - continued

3. Risk management - continued

Credit risk - continued

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

	2020 £'000	2019 £'000
AAA	41,005	19,354
AA	47,371	63,154
A	122,722	122,441
BBB	46,519	39,579
Below BBB or not rated	16,275	11,624
Total other financial investments bearing credit risk	273,892	256,152

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

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

	2020 £'000	2019 £'000
AA	8,212	10,626
A	111,575	111,478
BBB	-	1,280
Below BBB or not rated	3,259	3,710
Total reinsurers' share of claims outstanding and debtors arising out of reinsurance operations bearing credit risk	123,046	127,094

Debtors arising out of direct and reinsurance operations includes a £0.5 million (2019: £0.4 million) provision for impairment.

Notes to the financial statements - continued

3. Risk management - continued

Liquidity risk

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

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

	Within 1 year £'000	1-2 years £'000	3-5 years £'000	Over 5 years £'000	Total £'000
Claims outstanding	178,291	101,799	127,125	90,870	498,085
Creditors	45,569	2	-	-	45,571
Other payables	3,633	-	-	-	3,633
As at 31 December 2020	227,493	101,801	127,125	90,870	547,289
	Within 1 year £'000	1-2 years £'000	3-5 years £'000	Over 5 years £'000	Total £'000
Claims outstanding	268,638	119,153	88,415	5,913	482,119
Creditors	42,754	851	-	-	43,605
Other payables	3,335	-	-	-	3,335
As at 31 December 2019	314,727	120,004	88,415	5,913	529,059

Notes to the financial statements - continued

3. Risk management - continued

Liquidity risk – continued

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

	Within 1 year £'000	1-2 years £'000	3-5 years £'000	Over 5 years £'000	Total £'000
Other financial investments	126,652	98,147	42,440	6,653	273,892
Reinsurers' share of claims outstanding	36,402	20,785	25,955	18,553	101,695
Debtors	119,006	1,391	-	-	120,397
Cash at bank and in hand and overseas deposits	79,052	-	-	-	79,052
Prepayments and accrued income	27,637	-	-	-	27,637
As at 31 December 2020	388,749	120,323	68,395	25,206	602,673

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

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

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

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

Notes to the financial statements - continued

3. Risk management - continued

Market risk

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

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

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

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

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

Market risk - currency risk

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

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

Notes to the financial statements - continued

3. Risk management - continued

Market risk - currency risk - continued

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

	Sterling equivalent			Total
	US Dollars	Euros	Sterling and other	
	2020	2020	2020	
	£'000	£'000	£'000	£'000
Other financial investments	195,314	28,038	50,540	273,892
Reinsurers' share of claims outstanding	44,841	4,373	52,481	101,695
Debtors, accrued interest and prepayments and accrued income	81,162	7,455	33,193	121,810
Cash at bank and in hand and overseas deposits	7,082	5,627	66,343	79,052
Net deferred acquisition costs	12,822	1,687	8,381	22,890
Claims outstanding	(278,999)	(36,708)	(182,378)	(498,085)
Creditors	(30,758)	(1,177)	(13,935)	(45,870)
Net provision for unearned premiums	(61,970)	(8,153)	(40,509)	(110,632)
Net exposure	(30,506)	1,142	(25,884)	(55,248)

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

Whilst the matching of liabilities with assets within the above currencies reduces economic exposure to currency risk, it does not prevent exchange gains and losses from being recognised in the profit and loss account. A 10% strengthening of sterling against the following currencies at 31 December 2020 would have increased/(decreased) the Syndicate's profits by the amounts shown below. This analysis assumes no hedging of currency and that all other variables remain constant.

Notes to the financial statements - continued

3. Risk management - continued

Market risk - currency risk - continued

	Net assets		Profit before tax	
	2020	2019	2020	2019
	£'000	£'000	£'000	£'000
US Dollars	3,491	3,491	3,491	3,491
Euros	144	144	144	144

A 10% weakening of sterling against the above currencies at 31 December 2020 would have had an equal but opposite effect to the amounts shown above, on the basis that all other variables remain constant.

Market risk - interest rate risk

At 31 December 2020 the Syndicate's exposure to interest rate risk is primarily through its investments in debt and other fixed income securities due to instrument duration. The investment portfolio is managed based on the characteristics of the underlying liabilities and the alignment of the duration of the investment portfolio to the duration of the liabilities.

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

Euro	2020	2019
	%	%
0 to 1 years	21%	23%
1 to 2 years	24%	26%
over 2 years	55%	51%
Total	100%	100%
Average duration in years	2.21	2.43
US Dollar	2020	2019
	%	%
0 to 1 years	27%	25%
1 to 2 years	28%	30%
over 2 years	45%	45%
Total	100%	100%
Average duration in years	1.92	1.98

Notes to the financial statements - continued

3. Risk management - continued

Market risk – interest rate risk - continued

Canadian Dollar	2020 %	2019 %
0 to 1 years	38%	19%
1 to 2 years	39%	48%
over 2 years	23%	33%
Total	100%	100%
Average duration in years	1.42	1.74

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

To illustrate the downside risk within the debt and other fixed income securities portfolio, the impact of an increase of 100 basis points in interest yields across all portfolios simultaneously has been estimated. The Syndicate does not hedge interest rate risk and, assuming this continues and that all other variables remain constant, such an increase would decrease the market value of the investment portfolio and lead to a decrease in the total investment return of £1.8 million (2019: £3.8 million).

On the basis that all other variables remain constant, a decrease of 100 basis points in interest rates at 31 December 2020 would have had an equal and opposite effect to the amounts shown above.

Operational risk

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

Strategic and group risk

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

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

Notes to the financial statements - continued

3. Risk management - continued

Capital & Solvency

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

Reputation

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

Shared services

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

Notes to the financial statements - continued

4. Segmental Information

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

For the year ended 31 December 2020:

	Gross written premiums £'000	Gross premiums earned £'000	Gross claims incurred £'000	Net operating expenses £'000	Reinsurance balance £'000
Direct insurance					
Accident and health	118	147	(240)	(46)	26
Marine, aviation and transport	13,312	12,262	(16,688)	(4,200)	4,549
Energy-Marine and Non Marine	10,999	10,503	(5,037)	(2,687)	(1,616)
Fire and other damage to property	71,595	76,903	(60,248)	(22,956)	(5,369)
Third party liability	62,159	59,309	(36,432)	(19,290)	(9,756)
Pecuniary loss	462	3,136	(10,762)	(810)	2,375
Total direct	158,645	162,260	(129,407)	(49,989)	(9,791)
Assumed reinsurance	118,788	126,110	(79,331)	(37,220)	(8,938)
Total	277,433	288,370	(208,738)	(87,209)	(18,729)

For the year ended 31 December 2019:

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

Notes to the financial statements - continued

4. Segmental Information - continued

Geographical regions

Gross written premiums by location of risk:

	2020 £'000	2019 £'000
UK	12,677	9,655
Other European Union member states	8,187	8,309
United States of America	31,199	53,695
Worldwide	225,370	244,675
Gross premiums written	277,433	316,334

Following the sanction of the Part VII scheme by the High Court on 25 November 2020, the Part VII scheme took effect on 30 December 2020 and the Members and former Members of the Syndicate transferred the impacted EEA policies and related liabilities to Lloyd's Europe, together with cash of \$51.7 million. On the same date, under the Reinsurance Agreement, Lloyd's Europe reinsured the same risks back, together with an equal amount of cash of \$51.7 million. The combined effect of the two transactions had no economic impact for the Syndicate, and accordingly there is no impact on the Syndicate's income statement or balance sheet.

5. Claims incurred

Over/(under) provisions for claims at the beginning of the year as compared with net payments and provisions at the end of the year in respect of prior years' claims are as follows:

	2020 £'000	2019 £'000
Commercial	(7,557)	(12,426)
Specialty	288	6,917
Total	(7,269)	(5,509)

Unfavourable prior year loss development of £7.3 million was recorded in 2020 compared to unfavourable development of £5.5 million in the prior calendar year. In the current calendar year, the unfavourable loss development was driven primarily by higher emergence of claims of certain lines business than previously anticipated.

Notes to the financial statements - continued

6. Net operating expenses

	2020 £'000	2019 £'000
Acquisition costs	54,168	71,606
Other acquisition costs	5,322	6,675
Change in ceded deferred acquisition costs	79	(144)
Reinsurance commissions	(2,568)	(1,996)
Change in deferred acquisition costs	6,734	6,975
Total acquisition costs	63,735	83,116
Administrative expenses	23,474	27,430
Total	87,209	110,546

Administrative expenses include:

	2020 £'000	2019 £'000
Operating lease expenses recharged from CNA Services	1,762	1,859
Audit of Syndicate accounts	268	254
Other auditor services pursuant to Regulations and Lloyd's Byelaws	98	82

7. Staff numbers and costs

A management fee for the provision of administration services is payable to CNA Services. During 2020 no staff were employed by the managing agent and no staff costs were incurred directly by the managing agent during 2020 (2019: nil and £nil).

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

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

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

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

J Anderson, D Brosnan and D Worman

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

	2020 £'000	2019 £'000
Emoluments	930	1,053

Notes to the financial statements - continued

9. Other financial investments

	Cost 2020 £'000	Cost 2019 £'000	Fair Value 2020 £'000	Fair Value 2019 £'000
Debt securities and other fixed income securities	204,061	204,199	223,349	204,029
Shares and other variable yield securities	3,881	871	3,881	871
Deposits with credit institutions	46,662	51,252	46,662	51,252
Total	254,604	256,322	273,892	256,152

All debt securities and other fixed income securities are listed. Other financial investments measured by the fair value hierarchy at 31 December are summarised below. Included within Shares and other variable yield securities are Syndicate loans which have been provided by the Syndicate to the Lloyd's Central Fund from the 2019 and 2020 years of account. These loans cannot be traded and are valued using discounted cash flow models taking into account the credit and illiquidity risk of the loans. The Syndicate loans have been classified as Level 3 investments due to unobservable inputs and subjectivity used to determine the appropriate credit and illiquidity spreads within the discount rates used in the discounted cash flow models.

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
2020				
Debt securities and other fixed income securities	30,538	192,811	-	223,349
Shares and other variable yield securities	-	-	3,881	3,881
Deposits with credit institutions	-	46,662	-	46,662
Other financial investments	30,538	239,473	3,881	273,892
2019				
Debt securities and other fixed income securities	41,742	162,287	-	204,029
Shares and other variable yield securities	-	-	871	871
Deposits with credit institutions	-	51,252	-	51,252
Other financial investments	41,742	213,539	871	256,152

Notes to the financial statements - continued

10. Debtors arising out of direct operations

	2020 £'000	2019 £'000
Amounts due from intermediaries	96,340	102,262
Impairment provision	(513)	(400)
Total	95,827	101,862

	2020 £'000	2019 £'000
Within one year	95,786	101,854
After one year	41	8
Total	95,827	101,862

11. Other debtors

	2020 £'000	2019 £'000
Amounts due from group companies	2,770	3,897
Insurance premium tax	295	284
Other tax and social security	130	21
Sundry debtors	24	103
Total	3,219	4,305

Group balances are repayable on demand and reflect intra-group recharges. All amounts are expected to be recovered within one year.

12. Overseas deposits

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

Notes to the financial statements - continued

13. Technical provisions

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

Total technical provisions

	2020 £'000	2019 £'000
Gross		
Claims reported	249,963	254,230
Loss adjustment expenses	7,959	7,724
Claims incurred but not reported	240,163	220,165
Unearned premiums	128,217	141,921
Total gross insurance liabilities	626,302	624,040
Reinsurers' share of insurance liabilities		
Claims reported	41,125	55,484
Claims incurred but not reported	60,570	68,376
Unearned premiums	17,585	19,347
Total reinsurers' share of insurance liabilities	119,280	143,207
Net		
Claims reported	208,838	198,746
Loss adjustment expenses	7,959	7,724
Claims incurred but not reported	179,593	151,789
Unearned premiums	110,632	122,574
Total net insurance liabilities	507,022	480,833

Notes to the financial statements - continued

13. Technical provisions - continued

Movement in technical provisions

	Provision for unearned premiums £'000	Claims outstanding £'000	Total £'000
Gross			
At 1 January 2019	176,817	493,738	670,555
Foreign exchange revaluation	(3,912)	(10,473)	(14,385)
Movement in provision	(30,984)	(1,146)	(32,130)
At 1 January 2020	141,921	482,119	624,040
Foreign exchange revaluation	(2,767)	(5,995)	(8,762)
Movement in provision	(10,937)	21,961	11,024
At 31 December 2020	128,217	498,085	626,302
Reinsurance amount			
At 1 January 2019	22,003	127,143	149,146
Foreign exchange revaluation	(281)	(3,647)	(3,928)
Movement in provision	(2,375)	364	(2,011)
At 1 January 2020	19,347	123,860	143,207
Foreign exchange revaluation	(150)	213	63
Movement in provision	(1,612)	(22,378)	(23,990)
At 31 December 2020	17,585	101,695	119,280
Net			
At 31 December 2020	110,632	396,390	507,022
At 31 December 2019	122,574	358,259	480,833

The analysis that follows shows the Syndicate's estimate of the ultimate cost of claims at initial assessment and annually thereafter on an underwriting year basis. Data from all years has been restated at the 2020 closing rates of exchange to remove fluctuations caused by movements in foreign currency rates.

As these tables are on an underwriting year basis there is an apparent large increase from amounts reported at the end of the underwriting year to one year later. This is due to some insurance contracts remaining on risk after the first 12 months, therefore we would anticipate cumulative claims to increase in the second year as this business is earned.

Each table then provides a reconciliation of the syndicate level reserves to the liability provided in the Syndicate's balance sheet by including the Syndicate's share of liabilities for the pre-2010 underwriting years.

Notes to the financial statements - continued

13. Technical provisions - continued

Claims development table gross of reinsurance

Underwriting year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
100% syndicate values												
At end of first accounting year	115,632	125,305	111,904	57,637	62,387	73,919	64,579	120,603	80,402	54,165	75,659	942,192
One year later	171,233	89,595	28,480	87,052	76,049	96,482	107,867	88,412	151,179	89,038		985,387
Two years later	10,446	6,277	6,465	9,882	18,890	22,169	22,703	41,928	10,667			149,427
Three years later	4,974	(3,335)	(695)	(1,152)	13,927	2,411	(2,118)	7,166				21,178
Four years later	4,603	5,250	5,114	(3,403)	4,939	4,467	5,259					26,229
Five years later	980	2,398	(18)	3,146	(6,029)	(2,466)						(1,989)
Six years later	3,992	1,696	1,545	4,875	6,694							18,802
Seven years later	62	1,591	1,041	385								3,079
Eight years later	753	1,039	3,607									5,399
Nine years later	381	(1,885)										(1,504)
Ten years later	193											193
<hr/>												
Current estimate of earned claims at 31 December 2020	313,249	227,931	157,443	158,422	176,857	196,982	198,290	258,109	242,248	143,203	75,659	2,148,393
Cumulative payments to date	(308,359)	(220,248)	(147,330)	(151,607)	(156,309)	(160,057)	(145,770)	(181,054)	(138,690)	(34,056)	(13,590)	(1,657,070)
<hr/>												
Provision as at 31 December 2020	4,890	7,683	10,113	6,815	20,548	36,925	52,520	77,055	103,558	109,147	62,069	491,323
<hr/>												
Insurance liabilities in respect of prior underwriting years												6,762
<hr/>												
Insurance liabilities as at 31 December 2020												498,085
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Notes to the financial statements - continued

13. Technical provisions - continued

Claims development table net of reinsurance

Underwriting year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
100% syndicate values												
At end of first accounting year	71,270	72,401	56,535	88,976	57,167	69,603	53,068	86,341	72,886	47,967	60,648	736,862
One year later	90,262	43,802	41,832	77,543	71,377	80,784	92,128	85,611	118,459	70,365		772,163
Two years later	1,056	6,800	3,673	(33,681)	9,376	11,739	26,285	39,676	11,187			76,111
Three years later	4,173	2,715	(870)	(5,380)	874	563	(5,183)	8,841				5,733
Four years later	469	(775)	1,981	(4,281)	(463)	5,225	6,958					9,114
Five years later	685	9,260	1,265	3,160	(3,715)	(1,165)						9,490
Six years later	2,971	1,056	1,398	2,465	4,220							12,110
Seven years later	321	1,238	(2)	1,020								2,577
Eight years later	(515)	(402)	3,331									2,414
Nine years later	1,034	(772)										262
Ten years later	71											71
Current estimate of earned claims at 31 December 2020	171,797	135,323	109,143	129,822	138,836	166,749	173,256	220,469	202,532	118,332	60,648	1,626,907
Cumulative payments to date	(169,824)	(132,986)	(101,184)	(125,854)	(125,237)	(135,418)	(131,430)	(162,602)	(118,236)	(31,654)	(2,360)	(1,236,785)
Provision as at 31 December 2020	1,973	2,337	7,959	3,968	13,599	31,331	41,826	57,867	84,296	86,678	58,288	390,122
Insurance liabilities in respect of prior underwriting years												6,268
Insurance liabilities as at 31 December 2020												396,390

Notes to the financial statements - continued

14. Other creditors

	2020 £'000	2019 £'000
Amounts due to group companies	8,079	6,014
Contingent commissions	204	475
Sundry creditors	443	351
Total	8,726	6,840

Group balances are repayable on demand and reflect intra-group recharges.

15. Related parties

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

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

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

During the year CNA Services recharged £25,643,000 (2019: £28,304,000) in administrative expenses to the Syndicate. These amounts are included within note 6. The balance due to CNA Services as at 31 December 2020 is £7.4 million.

During the year Hardy Underwriting Asia Pte. Limited ("HAP") recharged £208,000 (2019: £972,000) in administrative expenses to the Syndicate. These amounts are included within note 6. The balance due to HAP as at 31 December 2020 is £0.1 million.

Managing agent fees of £247,500 (2019: £247,500) were paid by the Syndicate to HUA during 2020. The balance at 31 December 2020 is £nil.

16. Funds at Lloyd's

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

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

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

17. Post balance sheet events

The reinsurance premium to close the 2018 year of account of Syndicate 382 at 31 December 2020 was agreed by the managing agent on 16 February 2021. £54.2 million will be collected from the member.

On 4 January 2021 £4.0 million was transferred to Lloyd's Europe as advance funds to settle claims from that entity. This transfer was denominated in a mix of Euro, US dollars and Sterling. At 31 December 2020 this balance was included within cash at bank and in hand.