



TOKIO MARINE
HCC

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TOKIO MARINE
HCC

ANNUAL REPORT AND ACCOUNTS

Annual Report and Accounts
Syndicate 4141

HCC Underwriting Agency Ltd

Year ended 31 December 2021



TOKIOMARINE
HCC

ANNUAL REPORT AND ACCOUNTS

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DIRECTORS AND ADVISORS

Managing Agent:	HCC Underwriting Agency Ltd
Registered Office:	1 Aldgate London EC3N 1RE
Registered No:	4632146
Directors:	A M Baker (appointed 29 January 2021) S A Button B J Cook K Hatakeyama (Non-executive) (resigned 31 March 2021) T J G Hervy K L Letsinger N C Marsh (Non-executive Chairman) H Mishima (appointed 6 February 2021) H-D Rohlf (Non-executive) C A Scarr (Non-executive) Ko Shimizu (appointed 1 January 2022) G R A White
Syndicate:	Syndicate 4141
Active Underwriter:	S A Button
Company Secretary:	D R Feldman J L Holliday
Investment Manager:	New England Asset Management Ltd
Independent Auditors:	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors 7 More London Riverside London SE1 2RT

REPORT OF THE DIRECTORS OF THE MANAGING AGENT

The directors of HCC Underwriting Agency Ltd ('HCCUA'), the Managing Agent, present their Strategic Report and Directors' Report and the audited accounts of Syndicate 4141 ('the Syndicate') for the year ended 31 December 2021 (the 'Annual Accounts').

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

Strategic Report

Principal Activities

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

HCCUA is part of the Tokio Marine Group ('TM Group'), whose ultimate holding company is Tokio Marine Holdings, Inc. TM Group is a leading international insurance group located in Tokyo, Japan which has 249 subsidiaries, and 22 affiliates located worldwide, which undertake non-life and life insurance and operate within the financial and general business sector (including consulting and real estate).

As of 31 December 2021, TM Group had total assets of ¥27.1 trillion (December 2020: ¥25.6 trillion) and shareholders' equity of ¥2.1 trillion (December 2020: ¥1.9 trillion). TM Group and a number of its major insurance companies have a financial strength rating of A+ (Stable) from Standard & Poor's Financial Services LLC (S&P).

HCCUA is part of Tokio Marine HCC International Group (TM HCC International, or TMHCCI), which in addition to the Syndicate includes Houston Casualty Company (London Branch) ('HCL') and HCC International Insurance Company plc ('HCCI') and its wholly owned subsidiary, Tokio Marine Europe, S.A. ('TME'). TMHCCI manages its business by portfolio across these international platforms, with TMHCCI underwriters writing business based on prescribed rules which determine which carrier is utilised. Licensing, distribution or client choices are the principal determinants of the carrier utilised. Where an entity's results are disproportionately impacted by loss activity relative to its size, reinsurance arrangements with group companies are put in place.

Lines of business underwritten include Accident and Health (which includes Travel Medical, International Accident & Health and Disability), US Professional Liability, Marine (including Marine Hull, Marine Liability and Marine Cargo, which commenced writing business in 2021), Property Treaty, Financial Lines, General Liability, Energy, Property (which includes Property Direct and Facultative and the UK Delegated Property portfolio, which commenced writing business in 2020), Contingency and Credit. Travel Medical business is written exclusively by the Syndicate on behalf of the Tokio Marine HCC Group's wholly owned agency, HCC Medical Insurance Services, which is marketed as 'WorldTrips' and is based in Indiana, USA. The Syndicate's Contingency and Accident and Health (Disability) business was underwritten by HCC Specialty Ltd, a related company. The Syndicate's US Professional Liability business was placed through NAS Insurance Services, LLC ('NAS') coverholder, which was purchased by the Tokio Marine HCC Group on 1 April 2019. From 1 January 2021 new and renewal NAS business was underwritten on US domestic entities which now have the licenses, previously provided by Lloyd's. The Syndicate purchases excess of loss reinsurance from affiliates. The Syndicate's capital is provided by Nameco (No. 808) Limited ('Nameco'), an affiliate in the Tokio Marine HCC Group.

REPORT OF THE DIRECTORS OF THE MANAGING AGENT

Strategy and Market Conditions

The Syndicate's underwriting is concentrated in specifically defined lines of business where underwriting profit expected to be achieved. The Syndicate's experienced underwriting personnel, with access to and expertise in the insurance and reinsurance marketplaces and supported by the provision of high quality management information, positions the Syndicate to achieve its strategic objectives.

Market conditions for the Syndicate have been mixed with favourable ratings environments on some of our lines, such as Canadian Liability, offset by more challenging conditions elsewhere. The Syndicate's underwriting strategy focuses on risk selection to achieve an underwriting profit and therefore we have seen our top line decline on lines where our underwriters believe the market pricing is insufficient to justify writing the business.

Gross written premium has been positively impacted by the recovery of our Travel Medical business as global travel begins to recover from the challenging conditions of 2020, in addition to two new initiatives begun in 2021, GCube and Marine Cargo, and the development of our Marine Liability and Delegated Property lines which commenced in 2019 and 2020 respectively. This has been partially offset by the decision to write the NAS business elsewhere in the group.

Business Review

Key Performance Indicators (KPIs)

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

	2021 £m	2020 £m
Gross written premiums	171.5	161.6
Underwriting profit/(loss) (excl. investment return)	5.1	(1.7)
Profit for the financial year	4.8	2.0
Net loss ratio	48.8%	57.9%
Combined ratio	96.1%	101.4%
Investment return	(0.2)	3.4

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

Results and Performance

The Syndicate made a profit for the financial year of £4.8m (2020: £2.0m). The balance on the technical account totalled £4.9m (2020: £1.6m) and reflects a combined ratio, excluding investment return, of 96.1% (2020: 101.4%) which is a marked improvement over 2020 which was impacted by higher loss activity in our Financial Lines business and the Covid -19 pandemic which resulted in higher losses and reinsurance spend.

The net loss ratio for 2021 of 48.8% was 9.1% lower than 2020 due to previous year having been severely impacted by the Covid-19 pandemic related losses. The current year saw no major CAT losses while 2020 was impacted by CAT losses (3.0% impact on loss ratio). The remainder of the variance is driven by improved attritional loss experience, in particular on our Energy and Financial Lines businesses. The impact of this on profitability has been partially offset by an increase in the commission ratio reflecting a shift in business mix towards more coverholder business.

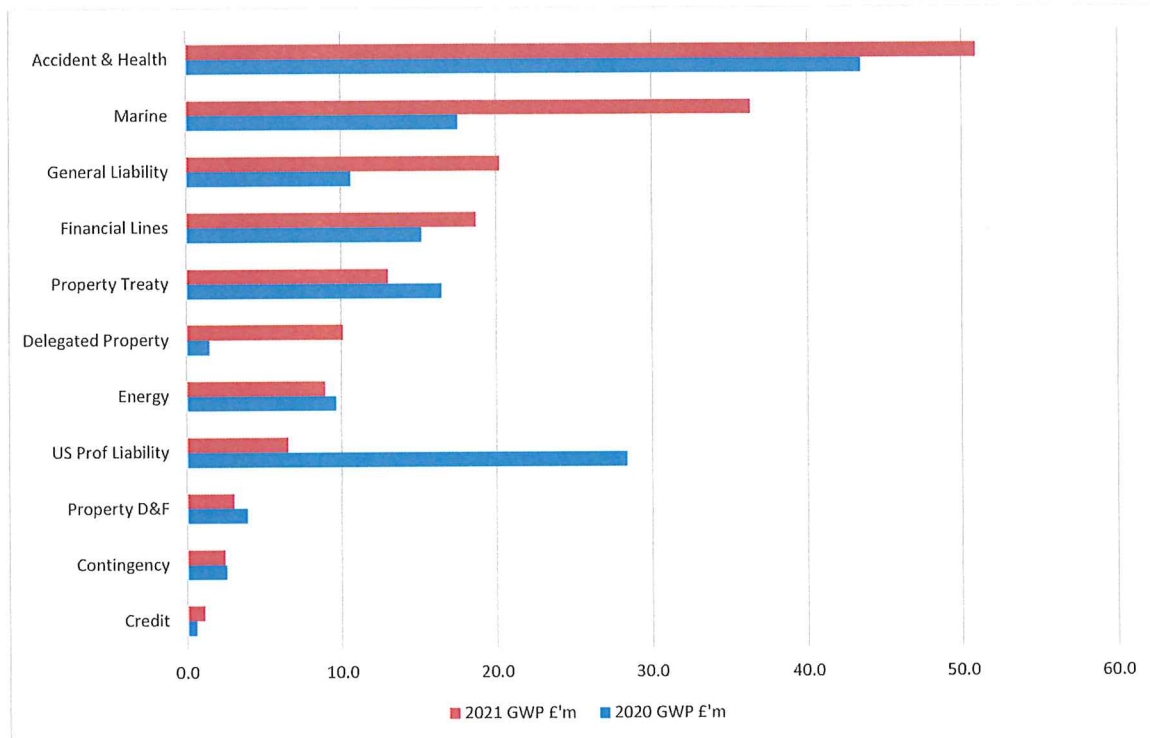
Investment return decreased by £3.6m in 2021 to a loss of £0.2m (2020: profit £3.4m), largely due to higher unrealised losses of £1.7m (2020: £1.3 gains) reflecting the US interest rate environment.

The sterling average exchange rate in 2021 for both the US Dollar and the Euro respectively was £1 = \$1.38 (2020: \$1.28) and £1 = €1.16 (2020: €1.13) reflecting the strengthening of Sterling against the two currencies. Given the significant amount of premium written in US Dollar this has had a dampening effect on the Syndicate's top line, reducing gross written premium by £7.1m compared to the 2020 exchange rates.

REPORT OF THE DIRECTORS OF THE MANAGING AGENT

Gross Written Premium

Syndicate 2021 gross written premium for its principal lines of business compared to 2020 (at constant FX) are presented below:



Gross written premium totalled £171.5m compared to £161.6m in 2020, an increase of £9.9m, excluding the impact of FX this increase would have been £17.0m. As noted above this increase is primarily the result of favourable market conditions in Canadian Liability, new business initiatives and the recovery of Travel Medical partially offset by less favourable conditions in Property and Property Treaty and the decision not to write NAS business on the Syndicate in 2021.

Accident and Health

The largest line of business underwritten by the Syndicate, Accident and Health (A&H), is comprised principally of the Travel Medical business and also includes International A&H along with Disability. Gross written premium of £50.9m (2020: £46.9m) increased by £4.0m compared to 2020 reflecting a significant pick-up of Travel Medical premium during 2021 as it recovers from the impact of Covid-19 and good market conditions in International A&H, offset by the impact of FX as this business is predominantly written in US Dollar.

Energy and Marine

Energy and Marine comprises Marine Hull, Marine Liability, Marine Cargo and Energy. Gross written premium across these lines of business of £45.3m (2020: £29.3m) has increased by 55% compared to 2020 mainly due to the Marine Cargo account which commenced writing business on the Syndicate in 2021 and growth in Marine Liability which commenced writing in 2019.

General Liability

General Liability is comprised of Professional Indemnity and Employers and Public Liability business. Positive market conditions for Canadian coverholder business has resulted in gross written premium increasing from £11.4m to £ 20.2m in 2021.

Property

Property includes Property Treaty, Property Direct and Facultative (D&F) and Delegated Property. Gross written

REPORT OF THE DIRECTORS OF THE MANAGING AGENT

premium of £26.2m (2020: £23.5m) increased by 11% driven by Delegated Property which commenced underwriting in 2020 and, as a risk attaching line of business, has seen significant growth in 2021. This is partially offset by lower income from the Property Treaty and Property D&F business where we have chosen to write less business given the challenging market conditions.

US Professional Liability

Gross written premium of £6.5m (2020: £30.6m) has decreased as this business is now being written on other platforms available within the TMHCC Group.

Reinsurance

Reinsurance to cover catastrophe exposed lines is purchased by line of business across the TMHCCI insurance platforms, and reinsurance premiums for excess of loss programmes are allocated across the platforms based on gross written premiums of the underlying business. Reinsurance recoveries are allocated based on the share of gross claims suffered by each entity. Purchases of the shared reinsurance programme are advised to both Lloyd's and the PRA. In addition, the Syndicate purchases quota share and facultative reinsurance to balance line size and premium where it is prudent to do so. In 2021 the Syndicate purchased excess of loss reinsurance, across all lines of business, from an affiliate.

Part VII transfer to Lloyd's Brussels

TMHCCI platforms other than the Syndicate have European licenses and historically the Syndicate didn't underwrite a significant amount of European business. As a result, the Lloyds Part VII transfer which came into effect 30 December 2020 was not a material transaction for the Syndicate.

Investment Policy and Management

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

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

New England Asset Management Ltd is the Investment Manager for the non-Lloyd's controlled regulated funds and unregulated funds. Each fund consists primarily of a portfolio of highly rated Corporate Bonds which are rated BBB and above, including Bonds guaranteed by the US, UK, German and Canadian governments. The average duration of the aggregate funds at the year-end was 1.76 years (2020: 1.59 years).

Review of Financial Position

The balance sheet of the Syndicate shows total assets of \$412.7m (2020: \$374.7m). Of the total assets, \$191.5m, 46% (2020 \$173.7m, 46%) was represented by financial investments and cash at bank. The increase in financial investments is due to the higher funding requirement of Lloyd's Trust Funds.

The Syndicate has a Member's balance of £2.1m as at 31 December 2021 (2020: £10.4m). The reduction in the Member's balance is principally due to the distribution of profits.

The directors of the Managing Agent have prepared the accounts on the basis that the Syndicate will continue to write future business. The ability of the Syndicate to meet its obligations as they fall due is underpinned by the support provided by the Lloyd's solvency process and its chain of security for any members who are unable to meet their underwriting liabilities. Accordingly, the Syndicate has adequate capital support to meet its obligations as they fall due. Member's Funds at Lloyd's are further explained in Note 21.

Future Outlook

TMHCCI continues to consider profitable opportunities in complimentary and new lines of business, through expansion of teams, venturing into new territories and potential acquisitions. The Syndicate is an important

REPORT OF THE DIRECTORS OF THE MANAGING AGENT

platform within TMHCCI which helps facilitate these opportunities.

Principal Risks and Uncertainties

The Board sets risk appetite as part of the Syndicate's business planning and capital assessment process. The Managing Agent regularly reviews and updates the risk register and monitors performance against risk appetite using a series of key risk indicators, which are categorised as Insurance; Strategic, Regulatory and Group; Market; Operational; Credit; and Liquidity. The risk indicators are considered in detail in Note 5 to the accounts.

Directors

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

A M Baker (appointed 29 January 2021)
S A Button
B J Cook
K Hatakeyama (Non-executive) (resigned 31 March 2021)
T J G Hervy
K L Letsinger
N C Marsh (Non-executive Chairman)
H Mishima (appointed 6 February 2021)
H-D Rohlf (Non-executive)
C A Scarr (Non-executive)
Ko Shimizu (appointed 1 January 2022)
G R A White

Directors' Interests

No director participated in the Syndicate.

Financial Information on HCC Underwriting Agency Ltd

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

	2021	2020
	£'000	£'000
	(unaudited)	(audited)
Managed capacity	225,000	225,000
Fee income	150	150
Commission income	378	364
Expenses net of recharges	(54)	(41)
Other income and expenses	(5)	5
FX gain/(loss)	19	(76)
Profit before tax	488	402
Net assets	3,427	3,032

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

Other Matters

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

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

Post Balance Sheet events

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

REPORT OF THE DIRECTORS OF THE MANAGING AGENT

Statement of directors' responsibilities in respect of the annual accounts

The directors are responsible for preparing the Annual Report and the accounts in accordance with applicable law and regulation.

Syndicate law requires the directors to prepare annual accounts for each financial year. Under that law the directors have prepared the annual accounts in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law).

Under company law, directors must not approve the annual accounts unless they are satisfied that they give a true and fair view of the state of affairs of the syndicate and of the profit or loss of the syndicate for that period.

In preparing the annual accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102 have been followed, subject to any material departures disclosed and explained in the annual accounts;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the annual accounts on the going concern basis unless it is inappropriate to presume that the syndicate will continue in business.

The directors are also responsible for safeguarding the assets of the syndicate and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the syndicate's transactions and disclose with reasonable accuracy at any time the financial position of the syndicate and enable them to ensure that the annual accounts comply with the Companies Act 2006.

The directors are responsible for the maintenance and integrity of the syndicate's annual accounts included on the Lloyd's and Tokio Marine HCC websites. Legislation in the United Kingdom governing the preparation and dissemination of annual accounts may differ from legislation in other jurisdictions.

Directors' confirmations

In the case of each director in office at the date the directors' report is approved:

- so far as the director is aware, there is no relevant audit information of which the syndicate's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the syndicate's auditors are aware of that information.

Independent Auditors

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

Annual General Meeting

The directors do not propose to hold a Syndicate Annual General Meeting during 2021, as permitted under the Syndicate Meetings (Amendment No. 1) Byelaw (No. 18 of 2000).

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

Approved for and on behalf of HCC Underwriting Agency Ltd.

B J Cook
Director
24 February 2022

Independent auditors' report to the member of Syndicate 4141

Report on the audit of the syndicate annual accounts

Opinion

In our opinion, Syndicate 4141's syndicate annual accounts:

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2021 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

We have audited the syndicate annual accounts included within the annual report and accounts (the "Annual Report"), which comprise: the balance sheet as at 31 December 2021; the Profit and loss account: Technical account - General business, the Profit and loss account: Non - technical account, the Statement of other comprehensive income, the Statement of cash flows, and the Statement of changes in member's balance for the year then ended; and the notes to the syndicate annual accounts which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)"), and The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and other applicable law. Our responsibilities under ISAs (UK) are further described in the *Auditors' responsibilities for the audit of the syndicate annual accounts* section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

Other than those disclosed in note 10, we have provided no non-audit services to the syndicate in the period under audit.

Conclusions relating to going concern

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 as a going concern for a period of at least twelve months from when the syndicate annual accounts are authorised for issue.

In auditing the syndicate annual accounts, we have concluded that the Managing Agent's use of the going concern basis of accounting in the preparation of the syndicate annual accounts is appropriate.

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

Independent auditors' report to the member of Syndicate 4141

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

Reporting on other information

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

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

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

Based on our work undertaken in the course of the audit, The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 requires us also to report certain opinions and matters as described below.

Managing Agent's Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Managing Agent's Report for the year ended 31 December 2021 is consistent with the syndicate annual accounts and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the syndicate annual accounts and the audit

Responsibilities of the Managing Agent for the syndicate annual accounts

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

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

Auditors' responsibilities for the audit of the syndicate annual accounts

Our objectives are to obtain reasonable assurance about whether the syndicate annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material

Independent auditors' report to the member of Syndicate 4141

if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these syndicate annual accounts.

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.

Based on our understanding of the syndicate and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK and European regulatory principles, such as those governed by the Prudential Regulation Authority and the Financial Conduct Authority, and those regulations set by the Council of Lloyd's, and we considered the extent to which non-compliance might have a material effect on the syndicate annual accounts. We also considered those laws and regulations that have a direct impact on the syndicate annual accounts such as The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. We evaluated management's incentives and opportunities for fraudulent manipulation of the syndicate annual accounts (including the risk of override of controls) and determined that the principal risks were related to management bias in accounting estimates and judgmental areas of the Annual Return. Audit procedures performed by the engagement team included:

- Discussions with the Board, management, internal audit, senior management involved in the Risk and Compliance functions and Syndicate's legal function, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Assessment of matters reported on the Syndicate's whistleblowing helpline and fraud register and the results of management's investigation of such matters;
- Reading key correspondence with the Prudential Regulation Authority and the Financial Conduct Authority in relation to compliance with relevant laws and regulations;
- Reviewing relevant meeting minutes including those of the Audit Committee;
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations or posted by senior management;
- Designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing;
- Understanding and assessing, with reference to supporting data and, where deemed appropriate, independent auditor rejections, the significant judgements made by management, in particular in relation to the valuation of claims incurred but not reported and the estimation of premium income, including consideration of potential conditions for increased management bias; and
- Testing any transactions entered into outside of the normal course of the Syndicate's business.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the syndicate annual accounts. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Independent auditors' report to the member of Syndicate 4141

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

Use of this report

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

Other required reporting

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

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Managing Agent in respect of the syndicate; or
- certain disclosures of Managing Agent remuneration specified by law are not made; or
- the syndicate annual accounts are not in agreement with the accounting records.

We have no exceptions to report arising from this responsibility.

Philip Watson (Senior statutory auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
24 February 2022

**PROFIT AND LOSS ACCOUNT:
 TECHNICAL ACCOUNT – GENERAL BUSINESS**
 For the year ended 31 December 2021

	Note	2021	2020
		£'000	£'000
Earned premiums, net of reinsurance			
Gross premiums written	6	171,478	161,568
Outward reinsurance premiums		(30,906)	(28,518)
Net premiums written		<u>140,572</u>	<u>133,050</u>
Change in the provision for unearned premiums			
Gross amount	14	(14,034)	(14,294)
Reinsurers' share	14	2,975	5,559
Change in the net provision for unearned premiums		<u>(11,059)</u>	<u>(8,735)</u>
Earned premiums, net of reinsurance		129,513	124,315
Total investment return transferred from non-technical account		1,507	3,377
Claims incurred, net of reinsurance			
Claims paid			
Gross amount		(78,791)	(101,510)
Reinsurers' share		28,366	44,648
Net claims paid		<u>(50,425)</u>	<u>(56,862)</u>
Change in the provision for claims			
Gross amount	14	(33,703)	(68,214)
Reinsurers' share	14	20,906	53,138
Change in the net provision for claims		<u>(12,797)</u>	<u>(15,076)</u>
Claims incurred, net of reinsurance	7	(63,222)	(71,938)
Net operating expenses	8	(61,229)	(54,122)
Balance on the technical account for general business		<u>6,569</u>	<u>1,632</u>

All amounts relate to continuing operations.



**PROFIT AND LOSS ACCOUNT:
NON-TECHNICAL ACCOUNT**
For the year ended 31 December 2021

	Note	2021 £'000	2020 £'000
Balance on the general business technical account		6,569	1,632
Investment income	11	1,589	2,472
Unrealised (loss) / gains on investments	11	(1,700)	1,297
Investment expenses and charges	11	(82)	(392)
Earned investment return transferred to general business technical account	11	(1,507)	(3,377)
Other (charges) / income including value adjustments		(74)	358
Profit for the financial year		4,795	1,990

STATEMENT OF OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2021

	2021 £'000	2020 £'000
Profit for the financial year	4,795	1,990
Foreign currency exchange profit / (loss) on translation	91	(415)
Total recognised gains	4,886	1,575

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

BALANCE SHEET

As at 31 December 2021

	Note	£'000	2021 £'000	£'000	2020 £'000
ASSETS					
Investments					
Other financial investments	13	185,056		167,301	
Deposits with ceding underwritings		<u>855</u>		<u>-</u>	
			185,911		167,301
Reinsurers' share of technical provisions					
Provision for unearned premiums	14	12,714		9,983	
Claims outstanding	14	<u>132,049</u>		<u>112,352</u>	
			144,763		122,335
Debtors					
Debtors arising out of direct insurance operations	15	32,954		30,376	
Debtors arising out of reinsurance operations		20,579		30,925	
Other debtors	16	<u>1,080</u>		<u>742</u>	
			54,613		62,043
Other assets					
Cash at bank and in hand		<u>5,570</u>		<u>6,444</u>	
			5,570		6,444
Prepayments and accrued income					
Accrued interest		485		347	
Deferred acquisition costs	14	<u>21,371</u>		<u>16,189</u>	
			21,856		16,536
Total assets			<u>412,713</u>		<u>374,659</u>

BALANCE SHEET

As at 31 December 2021

	Note	2021		2020	
		£'000	£'000	£'000	£'000
LIABILITIES					
Member's balance			2,076		10,439
Technical provisions					
Provision for unearned premiums	14	74,348		61,293	
Claims outstanding	14	<u>248,468</u>		<u>215,269</u>	
			322,816		276,562
Creditors					
Creditors arising out of direct insurance operations		4,685		4,743	
Creditors arising out of reinsurance operations	17	14,109		15,329	
Other creditors including taxation and social security	18	<u>65,220</u>		<u>64,333</u>	
			84,014		84,405
Accruals and deferred Income			3,807		3,253
Total liabilities			<u>412,713</u>		<u>374,659</u>

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

The accounts on pages 14 to 49 were approved by the Board of HCC Underwriting Agency Ltd and signed on its behalf by

K L Letsinger
 Director

24 February 2022



STATEMENTS OF CHANGES IN MEMBER'S BALANCE

For the year ended 31 December 2021

	2021 £'000	2020 £'000
Member's balance receivable brought forward at 1 January	10,439	(220)
Profit for the financial year	4,795	1,990
Foreign currency exchange profit / (loss) on translation	91	(415)
(Profit distribution) / Funding contribution	(13,249)	9,084
Member's balance (receivable) carried forward at 31 December	<u>2,076</u>	<u>10,439</u>

STATEMENT OF CASH FLOWS

For the year ended 31 December 2021

	Note	2021 £'000	2020 £'000
Net cash inflow from operating activities	19	30,275	37,635
Investing activities:			
Purchase of debt securities		(70,798)	(52,237)
Sale of debt securities		51,775	8,183
Investment income received		1,165	2,105
Financing activities:			
(Profit distribution) / funding contribution		(13,249)	9,084
Net cash inflow/ (outflow)		<u>(832)</u>	<u>4,770</u>
Cash and cash equivalents at beginning of year		6,444	1,733
Foreign exchange loss on translation of brought forward balances		(42)	(59)
Cash and cash equivalents at end of year		<u>5,570</u>	<u>6,444</u>
Cash and cash equivalents consist of:		2021 £'000	2020 £'000
Cash at bank and in hand		<u>5,570</u>	<u>6,444</u>

NOTES TO THE ACCOUNTS

1. GENERAL INFORMATION

Syndicate 4141 ('the Syndicate') is a fully aligned Syndicate managed by HCCUA which is authorised by the PRA and regulated by both the FCA and the PRA. The principal activity of the Syndicate remains the transaction of general insurance and reinsurance business in the United Kingdom and it operates solely within the Lloyd's market from its offices in London. HCCUA is a private company limited by shares and is incorporated in England. The address of its registered office is 1 Aldgate, London EC3N 1RE.

2. STATEMENT OF COMPLIANCE

The individual accounts of the Syndicate have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102 (FRS 102) & Financial Reporting Standard 103-Insurance Contracts (FRS 103) - Financial Reporting Standards applicable in the United Kingdom and the Republic of Ireland and the Companies Act 2006.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these accounts are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

a. Basis of preparation

These accounts have been prepared in accordance with Regulation 5 of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and in conformity with FRS 102 and FRS 103.

The preparation of accounts in conformity with FRS 102 and FRS 103 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Syndicate's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the accounts are disclosed in Note 4.

b. Going concern

As part of the preparation of these accounts the directors of HCC Underwriting Agency Ltd have considered whether the Syndicate 4141 will be able to continue to be a going concern for at least 12 months from the date that these accounts are approved.

The directors considered the basis on which the Syndicate's budget for 2022/ 2023 has been prepared, the extent to which the impact of the Covid-19 pandemic would have on the forecast and the reasonableness of the assumptions made in this respect, particularly in respect of its ability to continue its operations, its exposure to and settlement of claims losses arising from the pandemic and the economic impact on future business. Factors mitigating the impact of the coronavirus included an aggregate XL contract providing cover on contingency business on the 2020 and 2021 years of account between the Syndicate and HCL and actions taken by management to re-rate premiums charged on impacted renewal and new business as well as changes in terms and conditions.

Consideration was also given to the adequacy of the Syndicate's capital and liquidity based on the 2022 Syndicate Business Forecast and included stress testing and reverse stress testing as part of the ORSA process as well as stress tests performed by the Syndicate's investment managers.

In the light of the above the Board concluded that there were no material uncertainties that would cast doubt on the ability of the Syndicate to continue as a going concern for at least 12 months from the date of approval of these accounts.



NOTES TO THE ACCOUNTS

c. Lloyd's Part VII

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 Insurance Company S.A. ('Lloyd's Brussels'), 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 Brussels 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 scheme by the High Court on 25 November 2020, the 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 Brussels, together with cash. On the same date, under the Reinsurance Agreement, Lloyd's Brussels reinsured the same risks back, together with an equal amount of cash.

The combined effect of the two transactions had no economic impact for the Syndicate, and this is consistent with the accounting treatment of the Part VII in the Syndicate's income statement and balance sheet set out below:

- The cash transferred to Lloyd's Brussels under the Part VII arrangement was treated as "negative" gross written premium and cash received back from Lloyd's Brussels for the same value under the reinsurance agreement was treated as gross written premium, which offset each other; and
- The relevant claims outstanding and unearned premium reserves, associated deferred acquisition costs and debtors were reclassified from direct business to inwards reinsurance balances in the balance sheet.

d. Foreign currency

Functional and presentation currency

The Syndicate's functional currency is US Dollars and consistent with prior years the presentation currency is Sterling as required by Lloyd's. Foreign currency transactions are recorded using the spot exchange rates at the dates of the transactions into the functional currency. At each period end, foreign currency monetary assets and liabilities are revalued using the closing rate. For this purpose, all assets and liabilities arising from insurance contracts (including unearned premiums, deferred acquisition costs and unexpired risks provisions) are considered to be monetary items.

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

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

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

- a) Assets and liabilities at the closing rate at the balance sheet date which for Sterling was £1 = US\$1.3491 (2020: US\$1.3579); and
- b) Income and expenses at monthly rates during the year. The average rate for the year for Sterling was £1 = US\$1.38 (2020: US\$1.28).



NOTES TO THE ACCOUNTS

e. Insurance contracts

i. Classification of insurance and investment contracts

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

ii. Insurance contracts

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

a. Premiums written

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

b. Unearned premiums

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

c. Acquisition costs

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

d. Claims incurred

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

e. Claims provisions and related reinsurance recoveries

Provision is made at the year-end for the estimated cost of claims incurred but not settled at the balance sheet date, including the cost of claims incurred but not yet reported to the Syndicate. The estimated cost of claims includes expenses to be incurred in settling claims. The Syndicate takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established. Gross claims provisions are calculated gross of any reinsurance recoveries.

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



NOTES TO THE ACCOUNTS

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

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

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

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

Reinsurance

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

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

Unexpired risks provision

Provisions are made for any deficiencies arising when unearned premiums, net of associated acquisition costs, are insufficient to meet expected claims and expenses after taking into account future investment return on the investments supporting the unearned premiums provision and unexpired risks provision. The expected claims are calculated based on information available at the balance sheet date including events covered by the Syndicate's in force event cancellation policies that were due to take place after that date that had already been cancelled or postponed resulting in a loss to the policyholder.

Unexpired risks surpluses and deficits are offset where business classes are managed together, and a provision is made if an aggregate deficit arises. The unexpired risks provision would be included within 'Other technical provisions'.

Subrogation and salvage

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

NOTES TO THE ACCOUNTS

f. Taxation

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

g. Cash and cash equivalents

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

h. Provisions

Provisions are recognised when:

- the Syndicate has a present legal or constructive obligation as a result of past events;
- it is probable that an outflow of resources will be required to settle the obligation; and
- the amount of the obligation can be estimated reliably.

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

i. Financial instruments

The Syndicate has adopted FRS 102 relating to fair value hierarchy disclosures and applied the recognition and measurement provisions of IAS 39 (as adopted for use in the UK) and the disclosure requirements of FRS 102 in respect of financial instruments.

j. Financial assets

The Syndicate classifies its financial assets into the following categories:

- Shares and other variable yields securities and units in unit trusts – at fair value through profit or loss;
- Debt securities and other fixed-income securities – at fair value through profit or loss; and
- Loans and receivables.

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

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

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

The fair values of financial instruments that are not traded in an active market (for example, corporate bonds), are established by the directors using valuation techniques which seek to arrive at the price at which an orderly transaction would take place between market participants. Net gains or losses arising from changes in the fair value of financial assets at fair value through profit or loss are presented in the profit and loss account within 'Unrealised gains on investments' or 'Unrealised losses on investments' in the period in which they arise.

NOTES TO THE ACCOUNTS

Loans and receivables

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

k. Impairment of financial assets

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

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

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

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

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

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

NOTES TO THE ACCOUNTS

l. Financial liabilities

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

m. Investment return

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

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

Investment return is initially recorded in the Non-Technical and then earned investment return is transferred to the Technical Account.

n. Distributions to Member

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

o. Related party transactions

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

4. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATION UNCERTAINTY

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

Significant judgements in applying the accounting policies

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

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

The estimate of the ultimate liability arising from claims made under insurance contracts is the Syndicate's most critical accounting estimate. The carrying amount of the claims outstanding, net of reinsurance, is £116.4m (2020: £102.9m), see Note 14 for net claims outstanding. There are several areas of uncertainty that need to be considered in the estimate of the liability that the Syndicate will ultimately pay for such claims. The level of provision has been set on the basis of the information that is currently available, including potential outstanding loss advices, experience of development of similar claims, historical experience, case law and legislative and judicial actions.

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

NOTES TO THE ACCOUNTS

ii. Fair value of financial instruments

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

If quoted prices are not readily available, observable prices for recent arm's length transactions for an identical asset are used to determine its fair value. The carrying value of these instruments is £181.6m (2020: £160.9m), see Note 12 for pricing basis. The Syndicate uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period.

iii. Pipeline premium

The Company makes an estimate of premiums written on a policy by policy basis. Pipeline premium is the difference between estimated premium and booked premium. For the majority of lines written, premium is adjusted to equal booked premium two years post expiry. Pipeline premium is recorded within gross written premium and an assessment is made of the related unearned premium provision and an estimate of claims incurred but not reported in respect of the earned element. The pipeline premium included within gross written premium is £30.1m (2020: £28.3m).

5. RISK MANAGEMENT

The Syndicate has identified the risks arising from its activities and has established policies and procedures to manage these risks in accordance with its risk appetite. The Syndicate categorises its risks into six areas: Insurance; Strategic, Regulatory and Group; Market; Operational; Credit and Liquidity. The sections below outline the Syndicate's risk appetite and explain how it defines and manages each category of risk.

5.1 Insurance risk

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

i. Underwriting risk

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

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

The Company manages and models these four elements in the following three categories; attritional claims, large claims and catastrophe events.

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

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

NOTES TO THE ACCOUNTS

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

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

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

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

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

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

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

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

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

ii. Reinsurance risk

Reinsurance risk arises where reinsurance contracts:

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

NOTES TO THE ACCOUNTS

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

The purchase of reinsurance is a key tool utilised to manage underwriting risk. The Syndicate's reinsurance programme is comprised predominantly of excess of loss cover. Prior to placement of the programme, it is modelled against significant historic and modelled events across the peak exposure areas. The programme is purchased on a class of business basis, modelling catastrophe, large and attritional claims separately. In 2021 the Syndicate purchased excess of loss reinsurance, across all lines of business, from an affiliate.

Consideration is given to a number of factors when setting minimum retention including the Annual Aggregate Loss ('AAL') for catastrophe exposed lines. Where market opportunity allows, additional reinsurance is purchased. Quota share and facultative reinsurance is also utilised where considered appropriate. The Tokio Marine HCC Reinsurance Security Policy Committee examines and approves all reinsurers to ensure that they possess suitable security. The Syndicate's reinsurance team ensures that these guidelines are followed, undertakes the administration of reinsurance contracts and monitors and instigates our responses to any erosion of the reinsurance programmes.

iii. Claims management risk

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

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

iv. Reserving risk

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

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

The actuarial reserving team uses a range of recognised techniques to project current paid and incurred claims and monitors claim development patterns. This analysis is then supplemented by a variety of tools including back testing, scenario testing, sensitivity testing and stress testing. In particular, high level sensitivity testing on the impact of changes in future inflation rates has been carried out. An external independent actuary also performs an annual review to produce a statement of actuarial opinion. The actuarial analysis considers information drawn from across TM HCC International, allowing the Syndicate to benefit, where appropriate, from the use of a larger pool of data that is available from its portfolio in isolation. This mitigates the potential for volatility and data sparseness from considering solely the comparatively small Syndicate portfolio, noting that there is a common business operating model across all TM HCC International subsidiary companies.



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Gross and net development triangles of the estimate of ultimate claim cost for claims notified in a given year of account (YoA) are presented below and give an indication of the accuracy of the Syndicate's estimation technique for claims payments. Data has been translated using 31 December 2021 foreign exchange rates throughout the triangle.

Loss development triangles - GROSS	Underwriting year (pure YOA)										TOTAL
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	
Ultimate claims and cumulative payments	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
End of reporting year	27,367	27,042	29,583	33,254	31,871	78,374	44,375	35,113	46,583	38,582	
- one year later (*)	56,659	52,747	46,094	64,792	60,816	95,202	89,319	137,762	94,135		
- two years later	55,642	63,629	44,287	66,013	61,351	122,243	100,463	142,425			
- three years later	51,753	59,762	47,200	63,356	59,439	119,146	120,983				
- four years later	60,774	50,351	44,768	57,815	69,157	116,311					
- five years later	57,584	49,238	45,509	61,225	69,746						
- six years later	57,631	48,198	43,985	62,406							
- seven years later	57,006	47,385	43,419								
- eight years later	56,624	50,647									
- nine years later	56,497										
Current estimate of ultimate claims	56,497	50,647	43,419	62,406	69,746	116,311	120,983	142,425	94,135	38,582	
Cumulative payments to date	55,805	45,755	41,257	59,364	59,494	99,629	79,123	75,329	35,994	7,854	
Liability recognised in the balance sheet	692	4,892	2,162	3,042	10,252	16,682	41,860	67,096	58,141	30,728	235,547
Provision in respect of previous years											12,921
Total provision included in the balance sheet											248,468

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



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Loss development triangles NET	Underwriting year (pure YOA)											
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	TOTAL	
Ultimate claims and cumulative payments	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
End of reporting year	21,709	22,419	27,840	25,043	30,118	47,197	35,556	31,167	34,916	32,127		
- one year later (*)	38,315	41,353	42,136	48,507	54,857	69,673	60,797	56,263	57,605			
- two years later	39,079	44,233	39,868	49,732	54,717	84,628	68,366	59,399				
- three years later	37,775	40,774	42,608	48,506	53,134	79,965	72,353					
- four years later	38,028	40,071	41,097	46,069	59,817	80,005						
- five years later	36,787	39,403	41,824	48,101	60,079							
- six years later	35,970	39,235	40,462	47,722								
- seven years later	35,932	38,529	40,069									
- eight years later	36,124	41,703										
- nine years later	35,892											
Current estimate of ultimate claims	35,892	41,703	40,069	47,722	60,079	80,005	72,353	59,399	57,605	32,127		
Cumulative payments to date	34,251	37,412	38,636	45,326	52,764	73,886	59,586	39,087	27,044	7,495		
Liability recognised in the balance sheet	1,641	4,291	1,433	2,396	7,315	6,119	12,767	20,311	30,561	24,632	111,467	
Provision in respect of previous years												4,952
Total provision included in the balance sheet												116,419

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

5.2 Strategic, regulatory and group risk

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

i. Strategic risk

This is the risk that the Syndicate's strategy is inappropriate or that the Syndicate is unable to implement its strategy. Where an event exceeds the Syndicate's strategic plan, this is escalated at the earliest opportunity through the Syndicate's monitoring tools and governance structure to the Board of Directors.

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

ii. Regulatory risk

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



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Capital

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

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

Over and above the SCR, Lloyd's applies capital uplift to the member's capital requirement, known as the Economic Capital Assessment ('ECA'). The purpose of this uplift, which is a Lloyd's rather than Solvency II requirement, is to meet Lloyd's financial strength, licencing and ratings objectives. The capital uplift applied for 2021 was 35% (2020: 35%) of the member's SCR 'to ultimate'. Nameco provides the capital to meet its ECA by way of a Tier 2 bank letter of credit deposited with Lloyd's (i.e. Funds at Lloyd's) plus Tier 1 assets required by Lloyd's. Lloyd's now restricts the amount of Tier 2 capital that can be used to support the ECA. The restriction as at 31 December 2021 is 50% of the Syndicate's ECA can be covered by Tier 2 capital. There are no expectations that this restriction on the proportion of Tier 2 capital will reduce further than the 50% noted.

iii. Group risk

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

a) Contagion

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

b) Reputation

Reputation risk is the risk of negative publicity as a result of the Tokio Marine group's contractual arrangements, customers, products, services and other activities. The Syndicate's preference is to minimise reputation risks but, it is not possible or beneficial to avoid them, as the benefits of being part of the group brand are significant.

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



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5.3 Market risk

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

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

The investment strategy is developed by reference to an investment risk budget, reviewed annually by the directors as part of the overall risk budgeting framework of the business. In 2021, the investment risk budget was maintained at a level such that the amount of an investment loss, at the 1-in-200 Tail Value at Risk (TVaR) level, was limited to the Syndicate's excess capital (above the regulatory minimum). The investment risk budget will be at a similar level in 2022.

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

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

i. Foreign exchange risk

The Syndicate's functional currency is the US Dollar and its presentational currency is Sterling. The effect of this on foreign exchange risk is that the Syndicate's profit for the financial year is mainly exposed to fluctuations in exchange rates for non-US dollar denominated transactions upon revaluation of monetary assets and liabilities. The US dollar functional currency is translated to Sterling presentational currency and any foreign exchange gains or losses are recognised in the Statement of Other Comprehensive Income.

Although net assets in the balance sheet are relatively small, comprising the Member's balance on the open Years of Account which are distributed when the YoA closes, foreign exchange risk arises if net assets in individual foreign currencies are not matched.

The Syndicate operates in six main currencies: US Dollars; Sterling; Canadian Dollars; Australian Dollars; Swiss Francs and Euros. Transactions in all non-US Dollar currencies are converted to the US Dollar functional currency on initial recognition with any balances on monetary items at the reporting date being translated at the US Dollar closing spot rate.

In 2021, the Syndicate managed its foreign exchange risk by periodically assessing its non-US Dollar exposures and rebalancing where appropriate.

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

FX risk exposure	AUD\$	CAD\$	CHF	EUR	GBP
31 December 2021	\$'000	\$'000	\$'000	\$'000	\$'000
Total assets	16,445	147,786	1,391	18,081	47,055
Total liabilities	(15,345)	(63,184)	(1,391)	(18,479)	(63,474)
Net assets/ (liabilities)	1,100	84,602	-	(398)	(16,419)

FX risk exposure	AUD\$	CAD\$	CHF	EUR	GBP
31 December 2020	\$'000	\$'000	\$'000	\$'000	\$'000
Total assets	17,416	101,941	1,314	21,075	42,623
Total liabilities	(20,638)	(46,882)	(1,000)	(18,295)	(63,974)
Net assets/ (liabilities)	(3,222)	55,059	314	2,780	(21,351)

Sensitivity analysis

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

FX risk exposure - sensitivity	Impact on profit for the financial year		Impact on net assets	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Change in exchange rate of Canadian dollar, Australian dollar, Euro, Swiss Franc and Sterling, relative to USD dollar				
US dollar weakens 30% against other currencies	664	3,260	(15,201)	(7,398)
US dollar weakens 20% against other currencies	443	2,174	(10,134)	(4,932)
US dollar weakens 10% against other currencies	221	1,087	(5,067)	(2,466)
US dollar strengthens 10% against other currencies	(664)	(1,087)	15,201	2,466
US dollar strengthens 20% against other currencies	(443)	(2,174)	10,134	4,932
US dollar strengthens 30% against other currencies	(221)	(3,260)	5,067	7,398

ii. Interest rate risk

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

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

The following table shows the average duration at the reporting date of the financial instruments that are exposed to movements in market interest rates. Duration is a commonly used measure of volatility and we

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believe gives a better indication than maturity of the likely sensitivity of our investment portfolio to changes in interest rates.

Investments and cash - Duration 31 December 2021	<1 yr £'000	1-2 yrs £'000	2-3 yrs £'000	3-4 yrs £'000	4-5 yrs £'000	>5 yrs £'000	Total £'000
Shares and other variable yield securities	65,430	-	-	-	-	-	65,430
Debt Securities	30,824	31,767	24,433	1,559	6,336	562	95,481
Overseas deposits	24,145	-	-	-	-	-	24,145
Total other financial investments	120,399	31,767	24,433	1,559	6,336	562	185,056
Cash at bank	5,570	-	-	-	-	-	5,570
Total	125,969	31,767	24,433	1,559	6,336	562	190,626

Investments and cash - Duration 31 December 2020	<1 yr £'000	1-2 yrs £'000	2-3 yrs £'000	3-4 yrs £'000	4-5 yrs £'000	>5 yrs £'000	Total £'000
Shares and other variable yield securities	98,116	-	-	-	-	-	98,116
Debt securities	12,450	21,271	952	2,396	887	1,142	39,098
Overseas deposits	30,087	-	-	-	-	-	30,087
Total other financial investments	140,653	21,271	952	2,396	887	1,142	167,301
Cash at bank	6,444	-	-	-	-	-	6,444
Total	147,097	21,271	952	2,396	887	1,142	173,745

Sensitivity analysis

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

Investments and cash – interest rate sensitivity	Impact on net profit		Impact on net assets	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Shift in yield (basis points)				
100 basis point increase	(1,708)	(693)	(1,708)	(693)
50 basis point increase	(854)	(346)	(854)	(346)
50 basis point decrease	822	236	822	236
100 basis point decrease	1,644	471	1,644	471

5.4 Operational risk

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

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

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

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- other systems controls.

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

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

5.5 Credit risk

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

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

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

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

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

The Investment Committee has established comprehensive guidelines for the Syndicate's Investment Managers regarding the type, duration and quality of investments acceptable to the Syndicate to ensure credit risk relating to the investment portfolio is kept to a minimum. The performance of our Investment Managers is regularly reviewed to confirm adherence to these guidelines.

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

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Investment and cash - credit ratings	AAA	AA	A	BBB	<BBB	Not rated	Total
31 December 2021	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Shares and variable yield securities	-	26,060	39,370	-	-	-	65,430
Debt securities	31,064	31,226	32,436	756	-	-	95,482
Overseas deposits	10,116	1,541	6,401	1,947	2,052	2,087	24,144
Deposits with ceding undertakings	-	-	855	-	-	-	855
Total other financial investments	41,180	58,827	79,062	2,703	2,052	2,087	185,911
Reinsurers' share of claims - outstanding	-	38,164	86,524	-	-	7,361	132,049
Cash at bank	-	-	5,570	-	-	-	5,570
Total	41,180	96,991	171,156	2,703	2,052	9,448	323,530

Investment and cash - credit ratings	AAA	AA	A	BBB	<BBB	Not rated	Total
31 December 2020	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Shares and variable yield securities	42,620	50,687	4,809	-	-	-	98,116
Debt securities	14,933	6,310	17,084	771	-	-	39,098
Overseas deposits	11,324	3,055	9,779	2,461	1,786	1,682	30,087
Deposits with ceding undertakings	-	-	-	-	-	-	-
Total other financial investments	68,877	60,052	31,672	3,232	1,786	1,682	167,301
Reinsurers' share of claims outstanding	-	56,147	51,764	-	-	4,441	112,352
Cash at bank	-	-	6,444	-	-	-	6,444
Total	68,877	116,199	89,880	3,232	1,786	6,123	286,097

The Syndicate's largest counterparty exposure is £30.6m of Canadian government securities of which £18.0m was Canadian Housing Trust (2020 - £13.1m of Canadian government securities).

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

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Financial assets – aging 31 December 2021	Not yet due	Up to 3 months past due	3 to 6 months past due	7 to 12 months past due	> 1 year past due	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Reinsurers share of claims outstanding	132,049	-	-	-	-	132,049
Insurance debtors	32,068	332	497	57	-	32,954
Reinsurance debtors	590	2,934	4,121	3,097	4,425	15,167
Deposits with ceding undertakings	855	-	-	-	-	855
Other debtors	1,080	-	-	-	-	1,080
Total	166,642	3,266	4,618	3,154	4,425	182,105

Financial assets – aging 31 December 2020	Not yet due	Up to 3 months past due	3 to 6 months past due	7 to 12 months past due	> 1 year past due	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Reinsurers share of claims outstanding	112,352	-	-	-	-	112,352
Insurance debtors	28,190	843	190	1,153	-	30,376
Reinsurance debtors	6,909	8,472	7,618	2,141	5,785	30,925
Other debtors	742	-	-	-	-	742
Total	148,193	9,315	7,808	3,294	5,785	174,395

5.6 Liquidity risk

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

The Syndicate's approach is to manage its liquidity position so that it can reasonably survive a significant individual or market loss event (see Note 5.1.i). This means that the Syndicate maintains sufficient liquid assets, or assets that can be readily converted into liquid assets at short notice, to meet expected cash flow requirements. These liquid funds are regularly monitored using cash flow forecasting to ensure that surplus funds are invested to achieve a higher rate of return. The Syndicate can also draw on group funds to bridge short-term cash flow requirements. The following table is an analysis of the net contractual cash flows based on all the liabilities held at 31 December 2021 and 2020:

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Financial liabilities – projected cash flows 31 December 2021	Within 1 year £'000	1-3 years £'000	3-5 years £'000	>5 years £'000	Total £'000
Gross claims outstanding	95,968	77,343	35,104	40,053	248,468
Creditors from direct insurance operations	4,684	-	-	-	4,684
Creditors from reinsurance operations	14,109	-	-	-	14,109
Other creditors	65,219	-	-	-	65,219
Total	179,980	77,343	35,104	40,053	332,480

Financial liabilities – projected cash flows 31 December 2020	Within 1 year £'000	1-3 years £'000	3-5 years £'000	>5 years £'000	Total £'000
Gross claims outstanding	82,026	66,694	29,710	36,839	215,269
Creditors from direct insurance operations	4,743	-	-	-	4,743
Creditors from reinsurance operations	15,329	-	-	-	15,329
Other creditors	64,333	-	-	-	64,333
Total	166,431	66,694	29,710	36,839	299,674

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

Investments and cash - maturity 31 December 2021	Within 1 year £'000	1-3 years £'000	3-5 years £'000	>5 years £'000	Total £'000
Shares and other variable yield securities	65,430	-	-	-	65,430
Debt security	30,824	48,289	15,264	1,104	95,481
Overseas Deposits	24,145	-	-	-	24,145
Total other financial investments	120,399	48,289	15,264	1,104	185,056
Cash at bank	5,570	-	-	-	5,570
Total	125,969	48,289	15,264	1,104	190,626

Investments and cash - maturity 31 December 2020	Within 1 year £'000	1-3 years £'000	3-5 years £'000	>5 years £'000	Total £'000
Shares and other variable yield securities	98,116	-	-	-	98,116
Debt security	12,450	22,224	3,283	1,141	39,098
Overseas deposits	30,087	-	-	-	30,087
Total other financial investments	140,653	22,224	3,283	1,141	167,301
Cash at bank	6,444	-	-	-	6,444
Total	147,097	22,224	3,283	1,141	173,745

5.7 Other Current Risks

This section identifies risks that have the potential to materially impact the existing risk profiles. It should be noted that, in addition to monitoring the Syndicate's existing and established principal risks, the risk management framework is designed to support the identification of developing and emerging risks; those which have the potential to impact, or require a review of, the existing strategic objectives. Risks which are more imminently likely to crystallise are also monitored.

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Operational resilience

Operational resilience, which relates to the ability of an insurer to absorb shocks and maintain smooth business services during adverse conditions, is another regulatory focus, with both the PRA and FCA articulating their expectations in this regard. At TMHCCI, operational resilience has been to a certain extent embedded within the existing Business Continuity Planning and Operational Risk analysis processes and has proven to be effective during the Covid-19 pandemic, with little to no downtime experienced when forced to work remote working and exceptional levels of service being maintained for clients.

That said, the level of certainty around operational resilience required by the regulation is acknowledged and appreciated by TMHCCI and a project has been implemented to deliver the PRA and FCA's operational resilience requirements by the end of March 2022. After this, the project is going to be transitioned into business as usual to ensure delivery of the remaining requirements well before the regulatory deadline of end of March 2025.

Inflation Risk

Inflation risk, particularly social inflation, has become a hot topic in the industry, where concerns have arisen over supply chains, transport costs and recruitment/retention as the world moves on from the Covid pandemic.

The impact of inflation will vary widely by line of business, market segment and geography. In the context of the Syndicate, it is noted that a significant proportion of the business comprises short-tail, non-US business, where the inflation poses relatively little risk. However, there are some lines of business (e.g. Financial Lines) where inflation has a greater impact. The impact of inflation is being considered by the business, including areas such as underwriting, claims handling, reserving and capital modelling.

Outsourcing & Supplier Management

As the organisation grows, reliance on outsourcing and supplier management also increases, through the ever greater use of cloud service providers to ensure system/data back-up capabilities, or the increased use of coverholders, arising from new lines of business such as Delegated Property and Marine Cargo. The use of third parties brings additional risks to an organisation and strong risk governance in this area is vital to ensure uninterrupted service to both external and internal stakeholders. While the residual rating of this risk is considered to be low, in light of the increased dependencies on third parties, as noted above, we continue to review our control framework in this area, to ensure it remains comprehensive and robust to appropriately mitigate the increased reliance.

Covid-19 risk

Since March 2020, TMHCCI has been monitoring and addressing the potential financial and operational risks created with the advent of the global Covid-19 pandemic.

What was flagged at a very early stage and has been borne out in practice is that Covid-19 has not had a material impact to date on the Syndicate, and it was an earnings event rather than a capital event, with neither the capital requirements nor the held capital currently materially impacted. This was due to the responsive reinsurance programmes with longstanding and secure reinsurers, including intra-group entities, as well as 1) the diversified book of business; 2) strong liquidity position and cautious allocation of investment portfolio; and 3) robust initial reserves set up for Covid claims, with relatively little movement in gross or net ultimates seen during 2021.

The level of uncertainty relating to Covid has receded during 2021. It is noted that, beyond the advent of future threatening mutations of the virus, one of the remaining areas of uncertainty, arising indirectly from Covid, relates to potential future volatility in the world financial markets that could occur in 2022, as governments around the world continue to withdraw their national structural support. This could impact various lines of business, such as Financial Lines, and our investment portfolio.

NOTES TO THE ACCOUNTS

Partially as a result of the Covid pandemic, TMHCCI introduced a new dynamic working policy in September 2021, when staff transitioned back to the office. This policy allows staff (with appropriate approval) to work from home for some of the week. Coming back to the office and the new policy bring several potential risks, including: 1) ensuring staff are appropriately operating in the office environment, including adhering to all local authority guidelines and maintaining staff safety and welfare; 2) ensuring that within the new working model there is robust training, appropriate mechanisms to provide ongoing professional development of staff, the correct technology in place to support productivity (whether working remotely or in the office) and minimising any disadvantages that might transpire if certain demographic groups need to work remotely with more regularity than others. The initial assessment of the transition back to the office is that it has been a success, but it is recognised that the return is still in its infancy and the potential risks will continue to be monitored during 2022.

Sustainability Risk

The issue of sustainability, whether it relates to the strategic and operational risks of addressing environmental, social and governance concerns, including climate change, or social responsibilities to both our external and internal stakeholders, is not a new risk. However, its profile has raised significantly over recent years, in part driven by the PRA's published expectations of firms in respect of their management of financial risks from climate change in Supervisory Statement 3/19 (SS3/19).

The Syndicate recognises sustainability in a holistic context, primarily through the Sustainability Committee, which articulates the Syndicate's strategy and risk appetite and coordinating the advancement and implementation of sustainability initiatives. Recognising the breadth of sustainability risk, various sub-groups (e.g., the Climate Risk committee, Workplace Group and the Charity Committee) also report into the Sustainability Committee, ensuring a coordinated approach to addressing these closely linked topics.

During 2021, specifically in relation to climate change risk, the Syndicate continued to formally articulate how it assesses the risk within its risk and governance frameworks, building on the work completed during 2020. Particular areas of development included: 1) further governance changes, such as amending the terms of reference of boards and relevant committees to include climate change risks as a regular agenda item, creating a specific Climate Risk Committee and board training; 2) building a dedicated sub-risk register to deal with specific climate change risks; 3) further input into the future strategic direction related to the underwriting of renewable energy and the support provided to existing lines of business related to transition activities; 4) developing additional stress testing and scenario analysis; and 5) identifying how the information, required to be disclosed under the new requirements, will be sourced. The progress made to date leads the Syndicate to expect the requirements in the various areas described to be embedded in accordance with regulatory requirements and best practice.

It is not considered that the risks associated with sustainability would have a material impact on the valuations used in these financial statements.

Operational Resilience

Operational resilience, which relates to the ability of an insurer to absorb shocks and maintain smooth business services during adverse conditions, is another regulatory focus, with both the PRA and FCA articulating their expectations in this regard. While operational resilience has been embedded within existing business continuity processes for many years, the fresh regulatory focus gives the Syndicate the opportunity to review and further develop a robust operational resilience framework, which will be implemented to reflect the final requirements of both regulators ahead of the 31 March 2022 deadline.

NOTES TO THE ACCOUNTS
6. SEGMENTAL ANALYSIS

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

	Gross premiums written	Gross premiums earned	Gross claims incurred	Gross operating expenses	Reinsurance balance	Net Underwriting result
2021	£'000	£'000	£'000	£'000	£'000	£'000
Direct insurance:						
Accident and health	47,702	44,431	(18,607)	(23,963)	641	2,502
Marine aviation and transport	33,965	25,651	(8,233)	(8,269)	(5,085)	4,064
Fire and other damage to property	10,203	7,575	(4,530)	(3,361)	(1,528)	(1,844)
Third party liability	42,921	45,238	(22,079)	(15,668)	(3,618)	3,873
Other	6,492	4,465	(24,440)	(1,547)	17,353	(4,169)
Total direct	141,283	127,360	(77,889)	(52,808)	7,763	4,426
Reinsurance assumed	30,193	30,083	(34,605)	(8,421)	13,579	636
Total	171,476	157,443	(112,494)	(61,229)	21,342	5,062
Investment return						1,507
Technical account						6,569
	Gross premiums written	Gross premiums earned	Gross claims incurred	Gross operating expenses	Reinsurance balance	Net Underwriting result
2020	£'000	£'000	£'000	£'000	£'000	£'000
Direct insurance:						
Accident and health	41,136	42,992	(19,708)	(20,054)	568	3,798
Marine aviation and transport	12,323	7,179	(2,588)	(3,514)	339	1,416
Fire and other damage to property	4,131	3,346	(990)	(1,244)	(1,828)	(716)
Third party liability	54,599	44,987	(30,204)	(17,113)	(2,024)	(4,354)
Other	12,000	11,746	(89,345)	(4,264)	80,255	(1,608)
Total direct	124,189	110,250	(142,835)	(46,189)	77,310	(1,464)
Reinsurance assumed	37,379	37,024	(26,889)	(7,933)	(2,483)	(281)
Total	161,568	147,274	(169,724)	(54,122)	74,827	(1,745)
Investment return						3,377
Technical account						1,632

NOTES TO THE ACCOUNTS

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

The geographical analysis of gross premiums written by destination is:

	2021	2020
	£'000	£'000
UK	44,502	61,688
EU countries	5,575	5,127
Rest of the world	121,401	94,753
Total	171,478	161,568

7. CLAIMS INCURRED, NET OF REINSURANCE

Net claims incurred include prior year reserve increases totaling £12.4m (2020: £1.8m release) on an accident year basis.

8. NET OPERATING EXPENSES

	2021	2020
	£'000	£'000
Acquisition costs	55,200	45,283
Change in deferred acquisition costs	(5,372)	(2,680)
Reinsurers' commissions and profit participation	(4,722)	(3,726)
Administrative expenses (see table below)	16,123	15,245
	61,229	54,122

	2021	2020
	£'000	£'000
Administrative expenses:		
Wages and salaries	2,847	2,699
Social security costs	591	456
Other pension costs	115	115
Total staff costs	3,553	3,270
Personal expenses	1,686	1,355
Other expenses	10,884	10,620
	16,123	15,245

Total Commissions for direct insurance amounted to £49.5m (2020: £28.6m). In addition, £9.9m (2020: £4.8m) of commission has been paid in relation to related parties.

The average number of direct underwriting staff (excluding directors) working for the Syndicate during the year was nineteen (2020: thirteen).

All staff are employed by HCC Service Company Inc. (UK branch). The disclosures for staff costs and headcount above relate to underwriting staff only. The costs of staff providing central services for group entities (including claims and underwriting support staff) are allocated and recharged to the Syndicate as

NOTES TO THE ACCOUNTS

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

9. DIRECTORS' EMOLUMENTS

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

	2021	2020
	£'000	£'000
Aggregate emoluments	467	904
Pension contributions	1	1
	468	905

Included in aggregate emoluments above is £103,427 (2020: £177,473) for the services of the Active Underwriter. Pension contributions for the Active Underwriter totalled £nil (2020: £nil). Pension benefits are accruing to two directors (2020: one) under the Group's defined contribution scheme.

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

	2021	2020
	£'000	£'000
Aggregate emoluments	170	353
Pension contributions	-	-
	170	353

10. AUDITOR'S REMUNERATION

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

	2021	2020
	£'000	£'000
Fees payable for the audit of the Syndicate's accounts	202	196
Fees payable for audit-related assurance services	65	63
Fees payable for non-audit services	147	143
	414	402

NOTES TO THE ACCOUNTS
11. INVESTMENT INCOME

	2021	2020
	£'000	£'000
Investment income:		
Income from financial investments at fair value through profit or loss	1,247	2,461
Gains on the realisation of financial investments at fair value through profit or loss	342	11
	<u>1,589</u>	<u>2,472</u>
Net unrealised losses on investments:		
Unrealised gains on financial investments at fair value through profit or loss	111	1,301
Unrealised losses on financial investments at fair value through profit or loss	(1,811)	(4)
	<u>(1,700)</u>	<u>1,297</u>
Investment expenses and charges:		
Investment management expense	(82)	(80)
Losses on the realisation of financial investments at fair value through profit or loss	-	(312)
	<u>(82)</u>	<u>(392)</u>
Total investment return	<u>(193)</u>	<u>3,377</u>
Profit on investments transferred to the technical account	1,507	3,377

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

	2021			2020		
	Return £'000	Avg Fund £'000	Avg Yield %	Return £'000	Avg Fund £'000	Avg Yield %
Australian Dollars	22	6,824	0.3%	144	7,205	2.0%
Canadian Dollars	(187)	78,601	(0.2)%	1,116	53,217	2.1%
Euros	(2)	1,848	(0.1)%	(2)	1,909	(0.1) %
Sterling	7	10,831	0.1%	377	10,252	3.7%
United States Dollars	(33)	67,453	0.0%	1,742	77,112	2.3%
	<u>(193)</u>	<u>165,557</u>	<u>(0.1)%</u>	<u>3,377</u>	<u>149,695</u>	<u>2.26%</u>

NOTES TO THE ACCOUNTS

12. Fair value estimation

The following table presents the Syndicate's financial investments measured at fair value at 31 December 2021 and at 31 December 2020 categorized into levels 1, 2 and 3, reflecting the categorisation criteria specified in FRS 102.

Financial investments - valuation hierarchy	Level 1	Level 2	Level 3	Total
31 December 2021	£'000	£'000	£'000	£'000
Shares and other variable yield securities	-	65,430	-	65,430
Debt securities	1,288	94,193	-	95,481
Overseas deposits	2,192	21,953	-	24,145
Total	3,480	181,576	-	185,056

Financial investments - valuation hierarchy	Level 1	Level 2	Level 3	Total
31 December 2020	£'000	£'000	£'000	£'000
Shares and other variable yield securities	-	98,116	-	98,116
Shares and other variable yield securities	2,474	36,624	-	39,098
Debt securities	3,895	26,192	-	30,087
Total	6,369	160,932	-	167,301

FRS 102 defines fair value hierarchies as follows:

Level 1 – quoted prices in an active market.

These financial instruments are traded in active markets whose fair value is based on quoted bid prices at the balance sheet date as described in Note 3.j.

Level 2 – recent transactions in an identical asset in the absence of quoted prices in active markets at the balance sheet date.

These use observable prices for recent arm's length transactions for an identical asset that are available directly as prices or indirectly from prices. Determining whether a market is active requires the exercise of judgement and is determined based upon the facts and circumstances of the market for the instrument being measured. The Syndicate has chosen to classify all securities other than Sovereign and overseas deposits as Level 2 securities; and

Level 3 – use of a valuation technique where there is no active market of other transactions which are a good estimate of fair value.

These comprise financial instruments where it is determined that there is no active market or that the application of criteria to demonstrate such as Level 2 securities is impractical. FRS102 requires that fair value is established through the use of a valuation technique which incorporates relevant information to reflect appropriate adjustments for credit and liquidity risks and maximises the use of observable market data where it is available and relies as little as possible on entity specific estimates. The relative weightings given to differing sources of information and the determination of non-observable inputs to valuation models can require the exercise of significant judgement. The Syndicate does not hold any Level 3 securities.

NOTES TO THE ACCOUNTS

No markets for investments were judged to be inactive at year end and as a result there were no adjustments to the prices or quotes provided by the independent pricing services, third party investment managers as of 31 December 2021 or 31 December 2020.

13. OTHER FINANCIAL INVESTMENTS

	Fair value		Book cost	
	2021	2020	2021	2020
	£'000	£'000	£'000	£'000
Shares and other variable yield securities and units in unit trusts	65,430	98,116	65,430	98,116
Debts securities and other fixed income securities	95,481	39,098	96,202	37,943
Overseas deposits as investments	24,145	30,087	24,145	30,087
	185,056	167,301	185,777	166,146

Of the above, £3.5m (2020: £6.4m) is listed on a recognised exchange (see note 12 pricing basis level 1).

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

14. TECHNICAL PROVISIONS

	Provisions for unearned premiums	Claims outstanding - reported claims	Claims outstanding - incurred but not reported claims	Claims outstanding - Total	Deferred acquisition costs (1)	Net technical liabilities
	£'000	£'000	£'000	£'000	£'000	£'000
Gross of reinsurance						
At 1 January 2021	61,293	97,936	117,333	215,269	16,189	260,373
Exchange adjustments	(979)	(419)	(85)	(504)	(190)	(1,293)
Movement in provision	14,034	6,478	27,225	33,703	5,372	42,365
At 31 December 2021	74,348	103,995	144,473	248,468	21,371	301,445
Reinsurance						
At 1 January 2021	9,983	43,026	69,326	112,352	2,361	119,974
Exchange adjustments	(244)	(20)	(1,189)	(1,209)	(68)	(1,385)
Movement in provision	2,975	7,488	13,418	20,906	1,300	22,581
At 31 December 2021	12,714	50,494	81,555	132,049	3,593	141,170
Net						
At 31 December 2021	61,634	53,501	62,918	116,419	17,778	160,275
At 31 December 2020	51,310	54,910	48,007	102,917	13,828	140,399

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

NOTES TO THE ACCOUNTS

15. DEBTORS ARISING OUT OF DIRECT INSURANCE OPERATIONS

	2021	2020
	£'000	£'000
Due from intermediaries within one year	32,954	30,376

16. OTHER DEBTORS

	2021	2020
	£'000	£'000
Other including taxes	1,080	742

All amounts are due within one year.

17. CREDITORS ARISING OUT OF REINSURANCE OPERATIONS

	2021	2020
	£'000	£'000
Due to third parties	14,109	15,329

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

18. OTHER CREDITORS INCLUDING TAXATION AND SOCIAL SECURITY

	2021	2020
	£'000	£'000
Balance with group companies	65,220	64,333

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

19. NET CASH INFLOW FROM OPERATING ACTIVITIES

	2021	2020
	£'000	£'000
Profit for the financial year	4,795	1,990
Decrease in net technical provisions	23,825	26,056
Increase / (decrease) in debtors	7,430	(9,280)
(Increase) in prepayments and accrued income	(5,319)	(2,781)
(Decrease) / Increase in creditors	(392)	24,834
Increase in accruals and deferred income	554	559
Investment profit	193	(3,377)
Other movements – foreign currency (loss) on retranslation	(811)	(366)
Net cash inflow from operating activities	30,275	37,635

NOTES TO THE ACCOUNTS

20. RELATED PARTIES

- a. The Syndicate's capital is provided by Nameco (No. 808) Limited ('Nameco'). Nameco's ultimate parent company is Tokio Marine Holdings, Inc. ('TMHD'). TMHD is incorporated in Japan and listed on the Tokyo Stock Exchange. The consolidated accounts of TMHD can be obtained from its website at http://www.tokiomarinehd.com/en/ir/library/annual_report/index.html.
- b. The Syndicate incurred managing agency fees of £150,000 (2020: £150,000) from its Managing Agent, HCCUA. HCCUA is a wholly owned subsidiary of HCC Intermediate Holdings Inc. An amount of £0.0m (2020: £0.0m) was due to HCCUA at the balance sheet date. In addition, £12.7m (2020: £12.5m) was paid to HCC Service Company Inc. (UK branch) for expenses paid during the year on behalf of the Syndicate and an amount of £1.5m was due to (2020: £1.9m due to) HCC Service Company Inc. (UK branch) at the balance sheet date. Profit related remuneration for the Syndicate's underwriting staff is charged to the Syndicate.
- c. The Syndicate shares a reinsurance programme with the other Tokio Marine HCC International carriers. Reinsurance premiums are pro-rated across Tokio Marine HCC International platforms according to their respective gross written premiums. Reinsurance recoveries are pro-rated based on the share of gross claims suffered by each carrier. The balance due to HCCII was £3.9m (2020: £12.2m due to HCCII) at the balance sheet date. Reinsurance is also purchased from affiliate entities comprising:
- i. A whole account Excess of Loss cover was arranged in 2021 with HCL; and
 - ii. An aggregate Excess of Loss cover arranged with HCL for Contingency losses on the 2019 and 2020 years.
- d. Nameco provides the entire capacity of Syndicate 4141. The immediate controller of Nameco and its sole shareholder is HCC Intermediate Holdings Inc. and the ultimate controller is TMHD. An amount of £16.0m (2020: £0.1 due to) was due to Nameco at the balance sheet date.
- e. The Syndicate transacts business with agencies and coverholders that are owned by the HCC group. Full delegated underwriting authorities have been provided to the following HCC group entities: HCC Specialty Ltd, HCC Medical Insurance Services and NAS The arrangements produced:

	2021	2020
	£'000	£'000
Premium income	64,599	53,289
Net Commission expense	22,531	16,334
Balance due from the Syndicate at year end	1,366	1,840

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

	2021	2020
	£'000	£'000
Gross premium written	134	1,115
Acquisition costs	(6)	(134)
Balance due to the Syndicate at year end	-	-

NOTES TO THE ACCOUNTS

- g. The following who were directors during the year are also directors of HCCII, a wholly owned subsidiary of the TM HCC Group:
- A M Baker (appointed 29 January 2021)
 - S A Button
 - B J Cook
 - K Hatakeyama (resigned 31 March 2021)
 - T J G Hervy
 - K L Letsinger
 - N C Marsh
 - H Mishima
 - H-D Rohlf
 - C A Scarr
 - Ko Shimizu (appointed 1 January 2022)
 - G R A White

21. FUNDS AT LLOYD'S

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

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

22. PENSION COMMITMENTS

The Group's International operations operate a Group Self Invested Personal Pension Scheme. The assets of the pension scheme are held separately from those of the Group's international operations in an independently administered fund. The pension cost charged to the Syndicate Profit and Loss Account for the year was £168k (2020: £115k). The accrued pension cost outstanding as at 31 December 2021 was £nil (2020: £nil).

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

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

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

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

The ultimate parent company of both the Syndicate and of Nameco is Tokio Marine Holdings, Inc. (TMHD). TMHD's head office is located in Tokyo, Japan. TMHD is a leading international insurance group with offices worldwide.

24. POST BALANCE SHEET EVENTS

The Directors confirm that there are no significant post balance sheet events requiring disclosure.