



**TOKIO MARINE**  
**HCC**

### **Important information about Syndicate Reports and Accounts**

Access to this document is restricted to persons who have given the certification set forth below. If this document has been forwarded to you and you have not been asked to give the certification, please be aware that you are only permitted to access it if you are able to give the certification.

The syndicate reports and accounts set forth in this section of the Lloyd's website, which have been filed with Lloyd's in accordance with the Syndicate Accounting Byelaw (No. 8 of 2005), are being provided for informational purposes only. The syndicate reports and accounts have not been prepared by Lloyd's, and Lloyd's has no responsibility for their accuracy or content. Access to the syndicate reports and accounts is not being provided for the purposes of soliciting membership in Lloyd's or membership on any syndicate of Lloyd's, and no offer to join Lloyd's or any syndicate is being made hereby. Members of Lloyd's are reminded that past performance of a syndicate in any syndicate year is not predictive of the related syndicate's performance in any subsequent syndicate year.

You acknowledge and agree to the foregoing as a condition of your accessing the syndicate reports and accounts. You also agree that you will not provide any person with a copy of any syndicate report and accounts without also providing them with a copy of this acknowledgment and agreement, by which they will also be bound.



TOKIO MARINE  
HCC

ANNUAL REPORT AND ACCOUNTS

# Annual Report and Accounts Syndicate 4141

HCC Underwriting Agency Ltd

Year ended 31 December 2020

## **ANNUAL REPORT AND ACCOUNTS**

### **CONTENTS**

	Page
Directors and advisors	3
Report of the directors of the managing agent	4
Independent auditors' report to the member of Syndicate 4141	10
Profit and loss account: Technical account - General business	14
Profit and loss account: Non-technical account	15
Statement of other comprehensive income	15
Balance sheet	16
Statement of changes in member's balance	18
Statement of cash flows	18
Notes to the accounts	19-48

## **DIRECTORS AND ADVISORS**

<b>Managing Agent:</b>	HCC Underwriting Agency Ltd
<b>Registered Office:</b>	1 Aldgate London EC3N 1RE
<b>Registered No:</b>	4632146
<b>Directors:</b>	A M Baker (appointed 29 January 2021) S A Button B J Cook K Hatakeyama (Non-executive) T J G Hervy N I Hutton-Penman (resigned 25 August 2020) 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) G R A White
<b>Syndicate:</b>	Syndicate 4141
<b>Active Underwriter:</b>	S A Button
<b>Company Secretary:</b>	D R Feldman J L Holliday
<b>Investment Manager:</b>	New England Asset Management Ltd
<b>Independent Auditors:</b>	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 2020 (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 252 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 2020, TM Group had total assets of ¥25.6 trillion (December 2019: ¥24.4 trillion) and shareholders' equity of ¥1.9 trillion (December 2019: ¥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 (Tokio Marine 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'). The Tokio Marine HCC International underwriters write business on the international platforms based on prescribed rules which determine which carrier is utilised. Licensing, distribution or client choices are the principle determinants of the platform utilised. Lines of business underwritten include Accident and Health (Travel Medical), US PI, Marine (including Marine Hull and Marine Liability), Property Treaty, Financial Lines, General Liability, Energy, Accident and Health, Property Direct and Facultative, Contingency, Accident & Health (Disability), Credit and Delegated Property. Travel Medical business is written exclusively by the Syndicate on behalf of the Tokio Marine HCC Group's wholly owned agency, HCC Medical Insurance Services ('HCCMIS'), based in Indiana, USA. The Syndicate's Contingency and Accident and Health business is underwritten by HCC Specialty Ltd, a related company. The Syndicate's US Professional Liability business is placed through NAS Insurance Services, LLC ('NAS') coverholder, which was purchased by the Tokio Marine HCC Group on 1 April 2019. In 2020, the Syndicate increased its participation, supporting TMHCC Professional Lines Group (of which NAS is part of) where specific Lloyd's licenses were not readily available elsewhere to TMHCCI underwriters. The Syndicate's capital is provided by Nameco (No. 808) Limited ('Nameco'), an affiliate in the Tokio Marine HCC Group.

#### Strategy and Market Conditions

The Syndicate's business philosophy and strategy is to underwrite profitable business through disciplined underwriting which includes careful risk selection and reinsurance purchasing in order to preserve the Member's equity and risk adjusted return on capital. Underwriting is concentrated in selected, narrowly defined lines of business where underwriting profit can be achieved. The Syndicate's experienced underwriting personnel, with access to and expertise in the insurance and reinsurance marketplaces, positions the Syndicate to achieve its strategic objectives.

## REPORT OF THE DIRECTORS OF THE MANAGING AGENT

Market conditions for the Syndicate have improved with steady rate rises and better terms and conditions since 2019 across the portfolio. Gross Written Premium has been positively impacted by increased participation on NAS and growth in Canadian General Liability business, where specific Lloyd's licenses are not readily available elsewhere to TMHCCI underwriters. Offsetting this, to some extent, are reductions in certain lines of business impacted by the Covid-19 pandemic, principally the Travel Medical business and where client preference continues to determine business volumes on other lines.

### Business Review

#### Key Performance Indicators (KPIs)

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

	2020 £m	2019 £m
Cash and investments	173.7	128.1
Gross written premiums	161.6	146.2
Underwriting (loss)/profit (excl. investment return)	(1.7)	4.5
Profit for the financial year	2.0	7.5
Net loss ratio	57.9%	53.5%
Combined ratio	101.4%	96.5%
Investment return	3.4	5.0

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 £2.0m (2019: £7.5m). The balance on the technical account totalled £1.6m (2019: £9.5m) and reflects a combined ratio, excluding investment return, of 101.4% (2019: 96.5%) impacted by higher loss activity.

The net loss ratio for 2020 of 57.9% was 4.4% higher than 2019 due to several large claims incurred during the year, in addition to 2.6% (2019: nil) large catastrophe experience, which includes Covid-19 loss provisions. The event cancellation (Contingency) business has substantial gross losses due to Covid-19 which are limited to £2.0m by intercompany reinsurance.

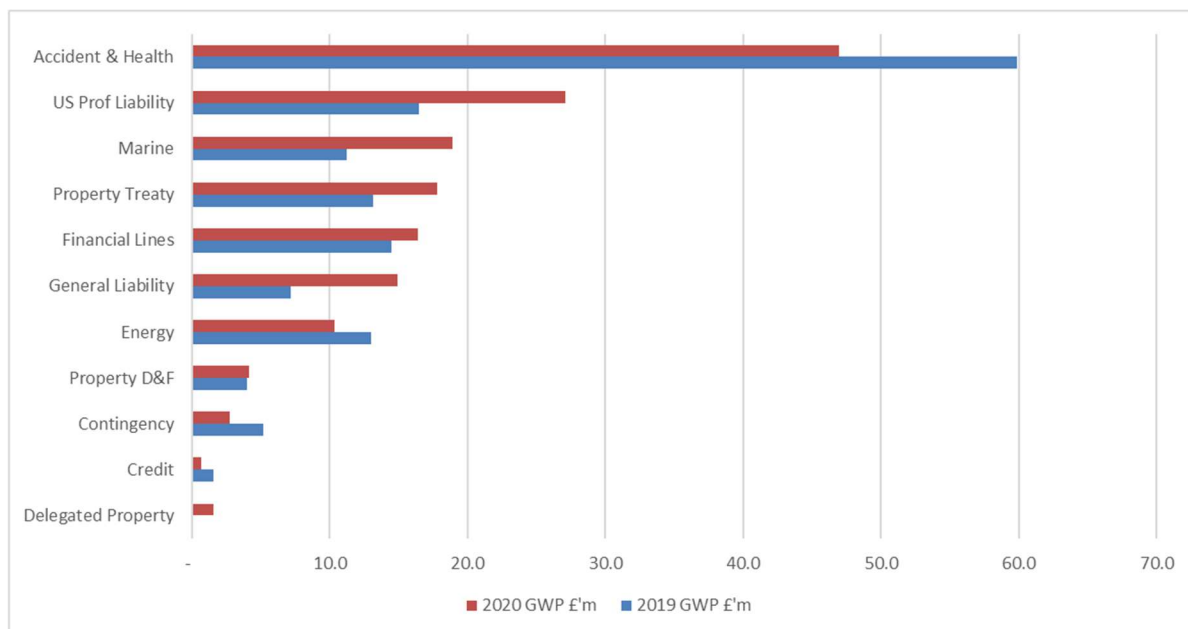
Investment return decreased by £1.6m in 2020 to a £3.4m (2019: £5.0m), largely due to reduced unrealised gains of £1.6m (2019: £2.6m loss) reflecting the US interest rate environment.

The sterling average exchange rate for both the Dollar and the Euro was not materially different in 2020 than in 2019 at £1 = \$1.28 and £1 = €1.13.

## REPORT OF THE DIRECTORS OF THE MANAGING AGENT

### Gross Written Premium

Syndicate 2020 gross written premium for its principal lines of business compared to 2019 are presented below:



Gross written premium totalled £161.6m compared to £146.2m in 2019. The increased gross written premium was across several lines including US Professional Liability (£10.6), Marine (£7.7m), General Liability (£7.7m), Property Treaty (£4.6m) and Delegated Property (£1.6m). Partially offsetting this increase is a decrease of £12.9m in A&H, as a result of COVID-19, Energy (£2.6m) and Contingency (£2.4m).

### **Accident and Health**

The largest line of business underwritten by the Syndicate, Accident and Health, is comprised principally of the Travel Medical business and also includes International Accident & Health along with Disability. Gross written premium of £46.9m (2019: £59.8m) reduced by 22% compared to 2019 driven by a 30% decrease in Travel Medical premium due to reduced travel during 2020, as a result of Covid-19. This short term travel medical product and student specific health plans are sold via the internet and volumes are expected to recover in 2021 and to continue to generate profitable results.

### **US Professional Liability**

US Professional Liability is comprised of legal expense and cyber protection of the US medical profession written through the NAS coverholder. Policy limits are relatively small, and the business has a long track record of profitability, which continued through 2020. Gross written premium of £27.1m (2019: £16.5m) increased by 64% compared to 2019 due to specific Lloyd's licenses not being readily available elsewhere to TMHCCI underwriters. This portfolio is expected to decrease significantly in 2021, as this business will be written on other platforms now available within the TMHCC Group.

### **General Liability**

General Liability is comprised of Professional Indemnity and Employers and Public Liability business. Growth from Canadian coverholder business has resulted in gross written premium increasing from £7.2m to £14.9m in 2020.

### **Energy and Marine**

Energy and Marine comprises Marine Hull, Marine Liability and Energy. Gross written premium across the three line of business of £29.3m (2019: £24.3m) has increased by 21% compared to 2019 due to the growth in

## REPORT OF THE DIRECTORS OF THE MANAGING AGENT

Marine Liability which commenced writing business on the Syndicate in 2019 along with the positive rating environment.

### **Property**

Property includes Property Treaty, Property Direct and Facultative and Delegated Property. Gross written premium of £29.3m (2019: £24.3m) increased by 21% due to positive market conditions and to a lesser extent from Delegated Property, which commenced writing business on the Syndicate in 2020.

### **Reinsurance**

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

In 2020, the Syndicate purchased reinsurance from an affiliate, to limit Event Cancellation losses as a result of Covid-19.

### **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 has not been a material transaction for the Syndicate.

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 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 accounts.

Following the sanction of the scheme by the High Court on 25th 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 of £5.6m. On the same date, under the Reinsurance Agreement, Lloyd's Brussels reinsured the same risks back, together with an equal amount of cash of £5.6m. The combined effect of the two transactions had no economic impact for the Syndicate, and accordingly there is no impact on the Syndicate's profit or loss and no net impact on the balance sheet. No adjustment has been made in the segmental note for transactions that occurred in respect of the transferred business up to the date of the transfer, which is consistent with the profit and loss account presentation. Outstanding debtor and creditor balances in respect of the transferred business that were previously classified as arising out of direct reinsurance operations have been reclassified as arising out of reinsurance operations.

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

### **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



## REPORT OF THE DIRECTORS OF THE MANAGING AGENT

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 1.59 years (2019: 2.15 years).

### Review of Financial Position

Financial investments of £167.3m at 31 December 2020 (2019: £126.3m) have increased in 2020 after taking account of the strengthening of Sterling against the US dollar from 1.31 at 31 December 2019 to 1.36 at 31 December 2020. The primary driver of this increase is a higher funding requirement of Lloyd's Trust Funds.

Gross claims outstanding have increased from £152m (2019) to £215m (2020), with reinsurance recoveries increasing from £63.1m (2019) to £112.4m (2020). The gross increase is Covid-19 related Event Cancellation losses in the Contingency line of business, with the off-setting increase in reinsurance recoveries being reflective of the reinsurance protection in place on these losses. Reinsurance security behind these assets is strong with 85% having a credit rating of at least A+.

The Syndicate has a Member's balance of £10.4m as at 31 December 2020 (2019: £(0.2)m).

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 20.

### 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 platform within TMHCCI which helps facilitate these opportunities.

The Board consider that the impact of Covid-19 on the Syndicate is limited as a result of the intercompany reinsurance which limits the Syndicate's losses from Covid-19 to a net retention of £2.0m (\$2.5m). This intercompany reinsurance allows for further potential development into 2021 which is well above the potential modelled losses based on known exposure. Additionally, modification of contract terms and conditions for new and renewal business has been made to reduce any potential additional exposure arising from the pandemic. For the Travel and Event Contingency business, it is likely that 2020 premium reductions will recover in 2021 as travel and events recommence.

### 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:

## REPORT OF THE DIRECTORS OF THE MANAGING AGENT

A M Baker (appointed 29 January 2021)  
 S A Button  
 B J Cook  
 K Hatakeyama (Non-executive)  
 T J G Hervy  
 N I Hutton-Penman (resigned 25 August 2020)  
 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)  
 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:

	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
	(unaudited)	(audited)
Managed capacity	225,000	225,000
Fee income	150	150
Commission income	364	515
Expenses net of recharges	(41)	(57)
Other income and expenses	5	16
FX loss	(76)	(60)
Profit before tax	402	564
Net assets	3,032	2,706

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  
26 February 2021

# ***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 2020 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 2020, 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 members' balances for the year then ended and the notes to the syndicate annual accounts, which include a description of the significant accounting policies and other explanatory information.

### **Basis for opinion**

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

### **Independence**

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

### **Conclusions relating to going concern**

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.

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,

# ***Independent auditors' report to the member of Syndicate 4141***

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 Managing Agent's Report, 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 2020 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 Managing Agent's Responsibilities, the Managing Agent is responsible for the preparation of the syndicate annual accounts in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Managing Agent is also responsible for such internal control as they determine is necessary to enable the preparation of syndicate annual accounts that are free from material misstatement, whether due to fraud or error.

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

### **Auditors' responsibilities for the audit of the syndicate annual accounts**

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

# ***Independent auditors' report to the member of Syndicate 4141***

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 Annual Return (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 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; 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.

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](http://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 member 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

# ***Independent auditors' report to the member of Syndicate 4141***

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  
26 February 2021

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

For the year ended 31 December 2020

	Note	2020 £'000	2019 £'000
<b>Earned premiums, net of reinsurance</b>			
Gross premiums written	6	161,568	146,156
Outward reinsurance premiums		(28,518)	(24,025)
<b>Net premiums written</b>		<b>133,050</b>	<b>122,131</b>
Change in the provision for unearned premiums			
Gross amount	14	(14,294)	7,772
Reinsurers' share	14	5,559	(960)
<b>Change in the net provision for unearned premiums</b>		<b>(8,735)</b>	<b>6,812</b>
<b>Earned premiums, net of reinsurance</b>		<b>124,315</b>	<b>128,943</b>
Total investment return transferred from non-technical account		3,377	4,967
<b>Claims incurred, net of reinsurance</b>			
Claims paid			
Gross amount		(101,510)	(103,949)
Reinsurers' share		44,648	32,718
<b>Net claims paid</b>		<b>(56,862)</b>	<b>(71,231)</b>
Change in the provision for claims			
Gross amount	14	(68,214)	5,810
Reinsurers' share	14	53,138	(3,531)
<b>Change in the net provision for claims</b>		<b>(15,076)</b>	<b>2,279</b>
<b>Claims incurred, net of reinsurance</b>	7	<b>(71,938)</b>	<b>(68,952)</b>
Net operating expenses	8	(54,122)	(55,481)
<b>Balance on the technical account for general business</b>		<b>1,632</b>	<b>9,477</b>

All amounts relate to continuing operations.



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

For the year ended 31 December 2020

	<b>Note</b>	<b>2020 £'000</b>	<b>2019 £'000</b>
<b>Balance on the general business technical account</b>		<b>1,632</b>	<b>9,477</b>
Investment income	11	2,472	3,168
Unrealised gains on investments	11	1,297	2,592
Investment expenses and charges	11	(392)	(793)
Earned investment return/(loss) transferred to general business technical account	11	(3,377)	(4,967)
Other income including value adjustments		359	(1,942)
<b>Profit for the financial year</b>		<b>1,990</b>	<b>7,535</b>

**STATEMENT OF OTHER COMPREHENSIVE INCOME**

For the year ended 31 December 2020

	<b>2020 £'000</b>	<b>2019 £'000</b>
Profit for the financial year	1,990	7,535
Foreign currency exchange (loss)/profit on translation	(415)	254
<b>Total recognised gains</b>	<b>1,575</b>	<b>7,789</b>

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 2020

	Note	£'000	2020 £'000	£'000	2019 £'000
<b>ASSETS</b>					
<b>Investments</b>					
Other financial investments	13	<u>167,301</u>	167,301	<u>126,318</u>	126,318
<b>Reinsurers' share of technical provisions</b>					
Provision for unearned premiums	14	9,983		4,717	
Claims outstanding	14	<u>112,352</u>		<u>63,094</u>	
			122,335		67,811
<b>Debtors</b>					
Debtors arising out of direct insurance operations	15	30,376		31,097	
Debtors arising out of reinsurance operations		30,925		23,040	
Other debtors	16	<u>742</u>		<u>481</u>	
			62,043		54,618
<b>Other assets</b>					
Cash at bank and in hand		<u>6,444</u>		<u>1,733</u>	
			6,444		1,733
<b>Prepayments and accrued income</b>					
Accrued interest		347		365	
Deferred acquisition costs	14	<u>16,189</u>		<u>13,874</u>	
			16,536		14,239
<b>Total assets</b>			<u><b>374,659</b></u>	<u><b>264,719</b></u>	

## BALANCE SHEET

As at 31 December 2020

	Note	2020 £'000	2019 £'000
<b>LIABILITIES</b>			
<b>Member's balance</b>		10,439	(220)
<b>Technical provisions</b>			
Provision for unearned premiums	14	61,293	48,466
Claims outstanding	14	<u>215,269</u>	<u>152,020</u>
		276,562	200,486
<b>Creditors</b>			
Creditors arising out of direct insurance operations		4,743	1,252
Creditors arising out of reinsurance operations	17	15,329	13,617
Other creditors including taxation and social security	18	<u>64,333</u>	<u>46,796</u>
		84,405	61,665
Accruals and deferred Income		3,253	2,788
<b>Total liabilities</b>		<u><b>374,659</b></u>	<u><b>264,719</b></u>

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

The accounts on pages 15 to 49 were approved by the Board of HCC Underwriting Agency Ltd and signed on its behalf by

K L Letsinger  
Director  
26 February 2021

## STATEMENTS OF CHANGES IN MEMBER'S BALANCE

For the year ended 31 December 2020

	<b>2020</b> <b>£'000</b>	<b>2019</b> <b>£'000</b>
Member's balance receivable brought forward at 1 January	(220)	(4,718)
Profit for the financial year	1,990	7,535
Foreign currency exchange (loss)/ profit on translation	(415)	254
Funding contribution/(Profit distribution)	9,084	(3,291)
Member's balance (receivable) carried forward at 31 December	<u>10,439</u>	<u>(220)</u>

## STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

	Note	<b>2020</b> <b>£'000</b>	<b>2019</b> <b>£'000</b>
Net cash inflow from operating activities	19	37,635	3,804
Investing activities:			
Purchase of debt securities		(52,237)	(6,804)
Sale of debt securities		8,183	3,048
Investment income received		2,105	2,394
Financing activities:			
Funding contribution/ (profit distribution)		9,084	(3,291)
Net cash inflow/ (outflow)		<u>4,770</u>	<u>(849)</u>
Cash and cash equivalents at beginning of year		1,733	2,666
Foreign exchange loss on translation of brought forward balances		(59)	(84)
Cash and cash equivalents at end of year		<u>6,444</u>	<u>1,733</u>

### Cash and cash equivalents consist of:

	<b>2020</b> <b>£'000</b>	<b>2019</b> <b>£'000</b>
Cash at bank and in hand	<u>6,444</u>	<u>1,733</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 2021/ 2022 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 2019 and 2020 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 2021 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.

#### 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

## NOTES TO THE ACCOUNTS

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:

- Assets and liabilities at the closing rate at the balance sheet date which for Sterling was £1 = US\$1.3579 (2019: US\$1.3118); and
- Income and expenses at monthly rates during the year. The average rate for the year for Sterling was £1 = US\$1.28 (2019: 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 EU) 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 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 £102.9m (2019: £88.9m), 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.

### **ii. Fair value of financial instruments**

## NOTES TO THE ACCOUNTS

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 £160.9m (2019: £111.9m), 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 £28.3m (2019: £26.9m).

## 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.

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.

## NOTES TO THE ACCOUNTS

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

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

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

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

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

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

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

The Syndicate's catastrophe risk 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.

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.

## NOTES TO THE ACCOUNTS

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

### iii. Claims management risk

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

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

### iv. Reserving risk

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

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

The actuarial reserving team uses a range of recognised techniques to project current paid and incurred claims and monitors claim development patterns. This analysis is then supplemented by a variety of tools including back testing, scenario testing, sensitivity testing and stress testing. An external independent actuary also performs an annual review to produce a statement of actuarial opinion.

Gross and net development triangles of the estimate of ultimate claim cost for claims notified in a given year of account (YoA) are presented below and give an indication of the accuracy of the Syndicate's estimation technique for claims payments. Data has been translated using 31 December 2020 foreign exchange rates throughout the triangle.

## NOTES TO THE ACCOUNTS

Loss development triangles - GROSS	Underwriting year (pure YOA)										
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	TOTAL
Ultimate claims and cumulative payments	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
End of reporting year	47,981	27,190	26,866	29,391	33,039	31,664	77,865	44,087	34,886	46,281	
- one year later (*)	95,836	56,292	52,405	45,796	64,372	60,421	94,585	88,740	136,869		
- two years later	97,258	55,282	63,217	44,000	65,585	60,953	121,451	99,812			
- three years later	95,029	51,418	59,375	46,894	62,946	59,053	118,374				
- four years later	90,755	60,380	50,024	44,478	57,440	68,609					
- five years later	91,305	57,211	48,919	45,214	60,654						
- six years later	86,428	57,258	47,885	43,551							
- seven years later	83,734	56,637	47,078								
- eight years later	84,406	56,257									
- nine years later	84,406										
Current estimate of ultimate claims	84,406	56,257	47,078	43,551	60,654	68,609	118,374	99,812	136,869	46,281	
Cumulative payments to date	81,897	55,442	45,397	40,498	49,808	57,190	94,932	69,044	49,821	14,649	
Liability recognised in the balance sheet	2,509	815	1,680	3,053	10,846	11,419	23,442	30,768	87,048	31,632	203,212
Provision in respect of previous years											12,056
<b>Total provision included in the balance sheet</b>											<b>215,269</b>

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



## NOTES TO THE ACCOUNTS

Loss development triangles - NET	Underwriting year (pure YOA)										
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	TOTAL
Ultimate claims and cumulative payments	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
End of reporting year	40,339	21,568	22,274	27,660	24,881	29,922	46,891	35,326	30,965	34,689	
- one year later (*)	74,703	38,067	41,085	41,863	48,192	54,501	69,221	60,403	55,898		
- two years later	76,273	38,825	43,946	39,609	49,410	54,362	84,080	67,923			
- three years later	72,901	37,530	40,510	42,332	48,191	52,790	79,447				
- four years later	68,898	37,782	39,811	40,830	45,771	59,430					
- five years later	69,596	36,548	39,148	41,553	47,789						
- six years later	66,703	35,736	38,981	40,200							
- seven years later	63,804	35,698	38,280								
- eight years later	64,519	35,890									
- nine years later	64,590										
Current estimate of ultimate claims	64,590	35,890	38,280	40,200	47,789	59,430	79,447	67,923	55,898	34,689	
Cumulative payments to date	62,008	34,028	37,121	38,204	42,147	51,197	69,360	51,306	30,492	8,520	
Liability recognised in the balance sheet	2,582	1,862	1,159	1,996	5,642	8,233	10,087	16,617	25,406	26,169	99,753
Provision in respect of previous years											3,163
<b>Total provision included in the balance sheet</b>											<b>102,917</b>

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

### 5.2 Strategic, regulatory and group risk

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

#### i. Strategic risk

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

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

#### ii. Regulatory risk

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

#### Capital

The Society of Lloyd's (Lloyd's) is a regulated undertaking and subject to supervision by the PRA under



## NOTES TO THE ACCOUNTS

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 2020 was 35% (2019: 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 2020 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.

## 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

## NOTES TO THE ACCOUNTS

directors as part of the overall risk budgeting framework of the business. In 2020, 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 2021.

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 2020, the Syndicate managed its foreign exchange risk by periodically assessing its non-US Dollar exposures and rebalancing where appropriate.

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

<b>FX risk exposure</b>	<b>AUD\$</b>	<b>CAD\$</b>	<b>CHF</b>	<b>EUR</b>	<b>GBP</b>
<b>31 December 2020</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
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)

<b>FX risk exposure</b>	<b>AUD\$</b>	<b>CAD\$</b>	<b>CHF</b>	<b>EUR</b>	<b>GBP</b>
<b>31 December 2019</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Total assets	9,861	56,119	480	22,024	37,791
Total liabilities	(11,973)	(23,587)	(188)	(23,960)	(42,699)
Net assets/ (liabilities)	(2,112)	32,532	292	(1,936)	(4,908)

## NOTES TO THE ACCOUNTS

### 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	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
<b>Change in exchange rate of Canadian dollar, Australian dollar, Euro, Swiss Franc and Sterling, relative to USD dollar</b>				
US dollar weakens 30% against other currencies	3,260	(654)	(7,398)	(5,351)
US dollar weakens 20% against other currencies	2,174	(436)	(4,932)	(3,567)
US dollar weakens 10% against other currencies	1,087	(218)	(2,466)	(1,784)
US dollar strengthens 10% against other currencies	(1,087)	218	2,466	1,784
US dollar strengthens 20% against other currencies	(2,174)	436	4,932	3,567
US dollar strengthens 30% against other currencies	(3,260)	654	7,398	5,351

### ii. Interest rate risk

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

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

The following table shows the average duration at the reporting date of the financial instruments that are exposed to movements in market interest rates. Duration is a commonly used measure of volatility and we believe gives a better indication than maturity of the likely sensitivity of our investment portfolio to changes in interest rates.

Investments and cash - Duration 31 December 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
<b>Total other financial investments</b>	<b>140,653</b>	<b>21,271</b>	<b>952</b>	<b>2,396</b>	<b>887</b>	<b>1,142</b>	<b>167,301</b>
Cash at bank	6,444	-	-	-	-	-	6,444
<b>Total</b>	<b>147,097</b>	<b>21,271</b>	<b>952</b>	<b>2,396</b>	<b>887</b>	<b>1,142</b>	<b>173,745</b>

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

## NOTES TO THE ACCOUNTS

### 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	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Shift in yield (basis points)				
100 basis point increase	(693)	(994)	(693)	(994)
50 basis point increase	(346)	(497)	(346)	(497)
50 basis point decrease	236	504	236	504
100 basis point decrease	471	1,008	471	1,008

### 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
- 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

## NOTES TO THE ACCOUNTS

- financial institutions holding cash.

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

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

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

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

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

### Investment and cash - credit ratings

	AAA £'000	AA £'000	A £'000	BBB £'000	<BBB £'000	Not rated £'000	Total £'000
<b>31 December 2020</b>							
Shares and variable yield securities	42,620	50,687	4,808				98,116
Debt securities	14,993	6,310	17,084	771			39,098
Overseas deposits	11,324	3,055	9,779	2,461	1,785	1,681	30,087
<b>Total other financial investments</b>	<b>68,878</b>	<b>60,053</b>	<b>31,670</b>	<b>3,232</b>	<b>1,785</b>	<b>1,681</b>	<b>167,301</b>
Reinsurers' share of claims - outstanding	-	56,147	51,764	-	-	4,441	112,352
Cash at bank			6,444				6,444
<b>Total</b>	<b>68,878</b>	<b>116,200</b>	<b>89,878</b>	<b>3,232</b>	<b>1,785</b>	<b>6,123</b>	<b>286,097</b>

### Investment and cash - credit ratings

	AAA £'000	AA £'000	A £'000	BBB £'000	<BBB £'000	Not rated £'000	Total £'000
<b>31 December 2019</b>							
Shares and variable yield securities	16,925	29,508	2,009	-	-	-	48,442
Debt securities	18,431	7,209	19,325	-	-	-	44,965
Overseas deposits	19,085	2,713	5,601	2,722	1,550	1,240	32,911
<b>Total other financial investments</b>	<b>54,441</b>	<b>39,430</b>	<b>26,935</b>	<b>2,722</b>	<b>1,550</b>	<b>1,240</b>	<b>126,318</b>
Reinsurers' share of claims outstanding	-	20,503	38,430	-	277	3,884	63,094
Cash at bank	-	-	1,733	-	-	-	1,733
<b>Total</b>	<b>54,441</b>	<b>59,933</b>	<b>67,098</b>	<b>2,722</b>	<b>1,827</b>	<b>5,124</b>	<b>191,145</b>

The Syndicate's largest counterparty exposure is £13.1m of Canadian government securities of which £1.8m was Canadian Housing Trust (2019 - £5.1m 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:

## NOTES TO THE ACCOUNTS

### Financial assets – aging 31 December 2020

	Not yet due £'000	Up to 3 months past due £'000	3 to 6 months past due £'000	7 to 12 months past due £'000	> 1 year past due £'000	Total £'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
<b>Total</b>	<b>148,193</b>	<b>9,315</b>	<b>7,808</b>	<b>3,294</b>	<b>5,785</b>	<b>174,395</b>

### Financial assets – aging 31 December 2019

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

## 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 2020 and 2019:

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
Net claims outstanding	82,025	66,693	29,710	36,839	215,269
Creditors from direct insurance operations	4,744	-	-	-	4,744
Creditors from reinsurance operations	15,329	-	-	-	15,329
Other creditors	64,333	-	-	-	64,333
<b>Total</b>	<b>166,341</b>	<b>66,693</b>	<b>29,710</b>	<b>36,839</b>	<b>299,674</b>

## NOTES TO THE ACCOUNTS

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

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

<b>Investments and cash - maturity 31 December 2020</b>	<b>Within 1 year £'000</b>	<b>1-3 years £'000</b>	<b>3-5 years £'000</b>	<b>&gt;5 years £'000</b>	<b>Total £'000</b>
Shares and other variable yield securities	98,116	-	-	-	98,116
Debt security	12,450	22,224	3,283	1,142	39,098
Overseas Deposits	30,087	-	-	-	30,087
<b>Total other financial investments</b>	<b>140,653</b>	<b>22,224</b>	<b>3,283</b>	<b>1,142</b>	<b>167,301</b>
Cash at bank	6,444	-	-	-	6,444
<b>Total</b>	<b>147,097</b>	<b>22,224</b>	<b>3,283</b>	<b>1,142</b>	<b>173,745</b>

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

### 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.

#### i. Pandemic risk

The Syndicate's strong risk and governance frameworks remain in place and continue to operate effectively in the new pandemic environment. Part of the adaptation to that new environment was the development of a pandemic risk register to sit alongside the existing frameworks and which has been incorporated into reporting to the Risk & Capital Management Committee. The table below illustrates the principal potential risks for the Syndicate's business and operations by risk area, that were identified as a result of the pandemic risk review. The overall strategy of the Syndicate includes some fundamental aspects which continue to mitigate the potential impacts of these Covid-19 risks and the various mitigations in place to reduce the impact of these risks are also described in the table below.



## NOTES TO THE ACCOUNTS

Risk Area	Principal Potential Pandemic Risks	Mitigating actions/factors
Insurance	<ul style="list-style-type: none"> <li>• Increased claims activity.</li> <li>• Reinsurance exhaustion.</li> <li>• Insufficient reserves held.</li> <li>• Reduction in future business.</li> <li>• Inability to purchase future reinsurance.</li> </ul>	<ul style="list-style-type: none"> <li>• Contract-by-contract review of direct and indirect potential exposures.</li> <li>• Consideration of the impact of the global economic environment on the portfolios.</li> <li>• Daily underwriter briefings ensure senior management is kept abreast of the rapidly developing market conditions, enabling the business to operate proactively.</li> <li>• Comprehensive outwards reinsurance purchased from high quality reinsurers with whom the Group has long-standing trading relationships.</li> <li>• Several unlimited Quota Share treaties in place (internal and with third parties) for a number of lines of business.</li> <li>• Partnering with reinsurers as claims develop.</li> <li>• Reserving policy produces accurate and reliable estimates that are consistent over time and across classes of business.</li> </ul>
Strategic, Regulatory and Group	<ul style="list-style-type: none"> <li>• Inability to implement strategy.</li> <li>• Inability to meet future business plan targets.</li> <li>• Failure of other TM Group companies.</li> </ul>	<ul style="list-style-type: none"> <li>• Diversified and well-balanced portfolio of business comprised of a number of low correlating lines of business.</li> <li>• Comprehensive outwards reinsurance purchased from high quality reinsurers with whom the Group has long-standing trading relationships.</li> <li>• Maintain good liquidity.</li> <li>• Reserving policy produces accurate and reliable estimates that are consistent over time and across classes of business.</li> <li>• Regular monitoring of regulatory capital and maintenance of a high excess over regulatory capital.</li> <li>• Each TM Group company independently capitalised.</li> </ul>
Market	<ul style="list-style-type: none"> <li>• Investment market volatility.</li> <li>• Asset /Liability mismatch due to different claims/premium profiles.</li> </ul>	<ul style="list-style-type: none"> <li>• Investment in secure and readily realisable assets.</li> </ul>
Operational	<ul style="list-style-type: none"> <li>• Inability of the business to fully work remotely.</li> <li>• Staff welfare/sickness issues.</li> <li>• IT Security / Fraud issues.</li> <li>• Outsourcing arrangements do not function as expected.</li> </ul>	<ul style="list-style-type: none"> <li>• IT infrastructure and software has enabled a smooth transition to remote working without substantial disruption.</li> <li>• Early instigation of the established business continuity protocols, which included specific pandemic responses facilitating a successful quick transition of the Group's operations from primarily office-based to almost exclusively remote-based.</li> <li>• To assist with staff welfare, the introduction of a range of initiatives (such as online exercise and hobby sessions, staff surveys, training sessions, additional employee assistance services), as well as</li> </ul>



## NOTES TO THE ACCOUNTS

Risk Area	Principal Potential Pandemic Risks	Mitigating actions/factors
		<p>the close monitoring of staff perceived to be particularly at risk by both managers and HR.</p> <ul style="list-style-type: none"> <li>Each material outsource arrangement has regular audits confirming the appropriateness of the supplier's own business continuity arrangements, allied with closer interaction with the suppliers during the pandemic, to ensure early identification of any potential issues.</li> <li>Additional monitoring of third-party outsourcing where considered appropriate.</li> </ul>
Credit	<ul style="list-style-type: none"> <li>Reinsurance / premium or investment counterparties unable to make payments.</li> </ul>	<ul style="list-style-type: none"> <li>Comprehensive outwards reinsurance purchased from high quality reinsurers with whom the Group has long-standing trading relationships.</li> <li>Proactive claims mitigants in place with reinsurer involvement.</li> <li>Increased cash flow and reinsurance credit monitoring.</li> </ul>
Liquidity	<ul style="list-style-type: none"> <li>Disinvesting from assets due to increase in claim payments, delay in reinsurance recovery payments and decrease in premium inflows.</li> </ul>	<ul style="list-style-type: none"> <li>Investment in secure and readily realisable assets.</li> </ul>

### ii 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 our social responsibilities to both our external and internal stakeholders, is not a new risk, but its profile has raised significantly during 2020, 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) under four headings: (i) governance; (ii) risk management; (iii) scenario analysis; and (iv) disclosure.

Progress has been made by the Syndicate in 2020 towards articulating its philosophy related to Sustainability, and all its component elements, through the establishment of a Sustainability Committee and the nomination of the Active Underwriter as the designated SM&CR holder who has responsibility for the financial impacts of climate change. The Board-delegated Sustainability Committee, and its various sub-groups, have responsibility for agreeing the sustainability strategy and risk appetite and will coordinate the advancement and implementation of sustainability initiatives, as well as initiating development of potential stress and scenario tests which may provide insight into the climate change risks. Sustainability risk is also in the process of being incorporated into the Syndicate's risk management framework.

### iii Post Brexit Risks

Late in 2020, the UK government signed an EU-UK Trade and Cooperation Agreement that came into provisional force as the Brexit Transition Period ended on 31 December 2020. However, the UK will have to wait until later in the year to learn what market access rights UK financial services companies will have in future and this leaves some residual post Brexit risk for the Syndicate. The main remaining risk from Brexit for the Syndicate relates to any issues that arise with the operation of Lloyd's Insurance Company S.A. and the consequential impact on the Lloyd's market. To mitigate this risk, we are keeping in close contact with Lloyd's and Lloyd's Insurance Company S.A., to ensure that any concerns are identified early and appropriate action is taken.

## NOTES TO THE ACCOUNTS

### iv 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.

## 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 £'000	Gross premiums earned £'000	Gross claims incurred £'000	Gross operating expenses £'000	Reinsurance balance £'000	Net Underwriting result £'000
<b>2020</b>						
<b>Direct insurance:</b>						
Accident and health	41,136	42,992	(19,708)	(20,054)	567	3,798
Marine aviation and transport	12,323	7,179	(2,558)	(3,514)	339	1,416
Fire and other damage to property	4,133	3,349	(990)	(1,244)	(1,827)	(713)
Third party liability	54,599	44,987	(30,205)	(17,113)	(2,024)	(4,354)
Other	11,997	11,972	(89,345)	(4,264)	80,255	(1,611)
<b>Total direct</b>	<b>124,189</b>	<b>110,250</b>	<b>(142,836)</b>	<b>(46,189)</b>	<b>77,311</b>	<b>1,464</b>
Reinsurance assumed	37,379	37,025	(26,88)	(7,933)	(2,484)	(281)
<b>Total</b>	<b>161,568</b>	<b>147,274</b>	<b>(169,724)</b>	<b>(54,122)</b>	<b>74,827</b>	<b>(1,745)</b>
Investment return						3,377
<b>Technical account</b>						<b>1,632</b>
<b>2019</b>						
<b>Direct insurance:</b>						
Accident and health	54,739	56,487	(26,797)	(23,709)	(130)	5,851
Marine aviation and transport	17,073	17,783	(22,882)	(7,613)	5,100	(7,612)
Fire and other damage to property	3,191	5,736	(2,424)	(1,742)	(1,768)	(198)
Third party liability	34,786	32,420	(20,119)	(11,681)	(4,984)	(4,364)
Other	7,503	7,717	8,577	(2,119)	(6,517)	7,658
<b>Total direct</b>	<b>117,292</b>	<b>120,143</b>	<b>(63,645)</b>	<b>(46,864)</b>	<b>(8,299)</b>	<b>1,335</b>
Reinsurance assumed	28,864	33,785	(34,494)	(8,617)	12,501	3,175
<b>Total</b>	<b>146,156</b>	<b>153,928</b>	<b>(98,139)</b>	<b>(55,481)</b>	<b>4,202</b>	<b>4,510</b>
Investment return						4,967
<b>Technical account</b>						<b>9,477</b>

## 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 majority of gross claims incurred and reinsurance balance in 2020 relate to contingency business.

The geographical analysis of gross premiums written by destination is:

	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
UK	61,688	38,134
EU countries	5,127	5,775
Rest of the world	94,753	102,247
<b>Total</b>	<b>161,568</b>	<b>146,156</b>

### 7. CLAIMS INCURRED, NET OF REINSURANCE

Net claims incurred include prior year reserve releases totaling £1.8m (2019: £7.9m release) on an accident year basis.

### 8. NET OPERATING EXPENSES

	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
Acquisition costs	45,283	43,515
Change in deferred acquisition costs	(2,680)	1,476
Reinsurers' commissions and profit participation	(3,726)	(5,465)
Administrative expenses (see table below)	15,246	15,955
	<b>54,122</b>	<b>55,481</b>

	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
<b>Administrative expenses:</b>		
Wages and salaries	2,699	2,561
Social security costs	456	363
Other pension costs	115	89
<b>Total staff costs</b>	<b>3,270</b>	<b>3,013</b>
Personal expenses	1,355	1,543
Other expenses	10,620	11,399
	<b>15,246</b>	<b>15,955</b>

Total Commissions for direct insurance amounted to £28.6m (2019: £31.7m). In addition, £4.8m (2019: £4.7m) of commission has been paid in relation to related parties.

The average number of direct underwriting staff (excluding directors) working for the Syndicate during the year was thirteen (2019: 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 a management fee. This staff information is not included in salary costs and average staff numbers as it is not practical to allocate them to the underlying entities to which the staff provide services.

## NOTES TO THE ACCOUNTS

### 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.

	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
Aggregate emoluments	904	837
Pension contributions	1	1
	<b>905</b>	<b>838</b>

Included in aggregate emoluments above is £177,473 (2019: £167,597) for the services of the Active Underwriter. Pension contributions for the Active Underwriter totalled £nil (2019: £nil). Pension benefits are accruing to one director (2019: one) under the Group's defined contribution scheme.

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

	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
Aggregate emoluments	353	389
Pension contributions	-	-
	<b>353</b>	<b>389</b>

### 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:

	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
Fees payable for the audit of the Syndicate's accounts	196	185
Fees payable for audit-related assurance services	63	59
Fees payable for non-audit services	143	139
	<b>402</b>	<b>383</b>

## NOTES TO THE ACCOUNTS

### 11. INVESTMENT INCOME

	2020 £'000	2019 £'000
<b>Investment income:</b>		
Income from financial investments at fair value through profit or loss	2,461	3,154
Gains on the realisation of financial investments at fair value through profit or loss	11	14
	<u>2,472</u>	<u>3,168</u>
<b>Investment expenses and charges:</b>		
Investment management expense	(80)	(100)
Losses on the realisation of financial investments at fair value through profit or loss	(312)	(693)
	<u>(392)</u>	<u>(793)</u>
<b>Net unrealised losses on investments:</b>		
Unrealised gains on financial investments at fair value through profit or loss	1,301	2,594
Unrealised losses on financial investments at fair value through profit or loss	(4)	(2)
	<u>1,297</u>	<u>2,592</u>
<b>Total investment return</b>	<u>3,377</u>	<u>4,967</u>
Profit on investments transferred to the technical account	3,377	4,967

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.

	2020			2019		
	Return £'000	Avg Fund £'000	Avg Yield %	Return £'000	Avg Fund £'000	Avg Yield %
Australian Dollars	144	7,205	2.0%	271	10,193	2.7 %
Canadian Dollars	1,116	53,217	2.1%	1,900	36,734	5.2 %
Euros	(2)	1,909	(0.1) %	(3)	1,221	(0.2) %
Sterling	377	10,252	3.7%	524	11,493	4.6 %
United States Dollars	1,742	77,112	2.3%	2,275	64,831	3.5 %
	<u>3,377</u>	<u>149,695</u>	<u>2.26%</u>	<u>4,967</u>	<u>124,472</u>	<u>3.99 %</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 2020 and at 31 December 2019 categorized into levels 1, 2 and 3, reflecting the categorisation criteria specified in FRS 102.

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

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

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 2020 or 31 December 2019.

### 13. OTHER FINANCIAL INVESTMENTS

	Fair value		Book cost	
	2020	2019	2020	2019
	£'000	£'000	£'000	£'000
Shares and other variable yield securities and units in unit trusts	98,116	48,442	98,116	48,442
Debts securities and other fixed income securities	39,098	44,965	37,943	44,350
Overseas deposits as investments	30,087	32,911	30,087	32,911
	167,301	126,318	166,146	125,703

Of the above, £6.4m (2019: £14.4m) 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
<b>Gross of reinsurance</b>						
At 1 January 2020	48,466	88,980	63,040	152,020	13,874	188,612
Exchange adjustments	(1,467)	(1,609)	(3,357)	(4,966)	(365)	(6,068)
Movement in provision	14,294	10,565	57,650	68,214	2,680	79,828
<b>At 31 December 2020</b>	<b>61,293</b>	<b>97,935</b>	<b>117,333</b>	<b>215,269</b>	<b>16,189</b>	<b>260,372</b>
<b>Reinsurance</b>						
At 1 January 2020	4,717	42,878	20,216	63,094	1,383	66,428
Exchange adjustments	(293)	(920)	(2,948)	(3,869)	(48)	(4,114)
Movement in provision	5,559	1,068	52,058	53,126	1,025	57,660
<b>At 31 December 2020</b>	<b>9,983</b>	<b>43,026</b>	<b>69,326</b>	<b>112,352</b>	<b>2,360</b>	<b>119,974</b>
<b>Net</b>						
<b>At 31 December 2020</b>	<b>51,311</b>	<b>54,905</b>	<b>48,012</b>	<b>102,917</b>	<b>13,829</b>	<b>140,399</b>
<b>At 31 December 2019</b>	<b>43,749</b>	<b>46,102</b>	<b>42,824</b>	<b>88,926</b>	<b>12,491</b>	<b>120,184</b>

(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

	2020	2019
	£'000	£'000
Due from intermediaries within one year	39,380	31,097

### 16. OTHER DEBTORS

	2020	2019
	£'000	£'000
Other including taxes	742	481

All amounts are due within one year.

### 17. CREDITORS ARISING OUT OF REINSURANCE OPERATIONS

	2020	2019
	£'000	£'000
Due to third parties	15,329	13,617

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

	2020	2019
	£'000	£'000
Balance with group companies	64,333	46,796

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

	2020	2019
	£'000	£'000
<b>Profit for the financial year</b>	1,990	7,535
Decrease/(increase) in net technical provisions	26,056	(6,311)
Increase in debtors	(9,280)	(14,526)
(Increase)/Decrease in prepayments and accrued income	(2,781)	1,282
Increase in creditors	24,834	20,233
Increase in accruals and deferred income	559	390
Investment profit	(3,377)	(4,967)
Other movements – foreign currency (loss)/gain on retranslation	(366)	168
<b>Net cash inflow from operating activities</b>	<b>37,635</b>	<b>3,804</b>

### 20. RELATED PARTIES

- 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](http://www.tokiomarinehd.com/en/ir/library/annual_report/index.html).



## NOTES TO THE ACCOUNTS

- b. The Syndicate incurred managing agency fees of £150,000 (2019: £150,000) from its Managing Agent, HCCUA. HCCUA is a wholly owned subsidiary of HCC Intermediate Holdings Inc. An amount of £0.0m (2019: £0.1m) was due to HCCUA at the balance sheet date. In addition, £12.5m (2019: £11.5m) was paid to HCC Service Company Inc. (UK branch) for expenses paid during the year on behalf of the Syndicate and an amount of £1.9m was due to (2019: £1.1m 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 £12.2m (2019: £18.1m due to) at the balance sheet date. In addition, the syndicate paid a premium of US\$ 5.25m to HCL in respect of an aggregate XL Contingency Reinsurance cover.
- d. Nameco provides the entire capacity of Syndicate 4141. The immediate controller of Nameco and its sole shareholder is HCC Intermediate Holdings Inc. and the ultimate controller is TMHD. An amount of £0.1m (2019: £0.1 due to) was due from 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:

	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
Premium income	53,289	70,718
Net Commission expense	16,334	20,769
Balance due from the Syndicate at year end	1,840	3,016

- 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:

	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
Gross premium written	1,115	274
Acquisition costs	(134)	(57)
Balance due to the Syndicate at year end	-	-

- 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
  - T J G Hervy
  - N I Hutton-Penman (resigned 25 August 2020)
  - K L Letsinger
  - N C Marsh
  - H Mishima
  - H-D Rohlf
  - C A Scarr
  - G R A White

## NOTES TO THE ACCOUNTS

### 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 £115k (2019: £89k). The accrued pension cost outstanding as at 31 December 2020 was £nil (2019: £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.