Annual Review
2015

Including HCC International Insurance Company PLC Report & Accounts

Contents

Spotlight on Tokio Marine

After over 40 years as an independent company, HCC Insurance Holdings, Inc. was acquired by Tokio Marine Holdings, Inc. in a deal with a total transaction value of approximately $7.5bn. The agreement was announced on 10 June 2015 and formally closed on 27 October 2015. Today, HCC Insurance Holdings, Inc. operates as Tokio Marine HCC.

Tokio Marine, founded in 1879, is one of the oldest insurance groups in Japan and one of the largest in the world. With total assets of $194.1bn and ordinary profits of $3.2bn in FY 2015, Tokio Marine has considerable financial strength, a strong capital base and an impressive track record of profitable growth.

A key element of Tokio Marine's corporate strategy has been to drive global risk diversification through strategic M&A transactions in both established and emerging markets. In 2008, when Tokio Marine acquired the Lloyd's syndicate Kiln Ltd and specialty insurer Philadelphia Consolidated Holding Corporation, significant expansion into the Lloyd's market and the United States began. These acquisitions were followed by another U.S. specialty company, Delphi Financial Group, in 2012. The acquisition of HCC Insurance Holdings, Inc. builds upon and complements this considerable international expansion, creating a premier global specialty insurance franchise.

> The acquisition of HCC Insurance Holdings, Inc. builds upon and complements this considerable international expansion...

Step-by-step expansion since 2000

International business grew substantially after 2007, driven by Kiln, Philadelphia, Delphi and HCC

Tokio Marine HCC

Tokio Marine HCC is a leading specialty insurer, underwriting over 100 classes of specialty insurance products in approximately 180 countries. We have been keenly acquisitive since our creation in 1974, with over 50 acquisitions completed since going public in 1992 – a strategy which continued in January 2016 with the purchase of On Call International LLC, a leading provider of fully-customised travel risk management services, including medical evacuation and emergency assistance, to travellers around the world.

> ...our International division has built a book of more than $800m of highly diversified insurance products.

In 2000, HCC started to invest outside the United States, first in London and then in the European Continental market. Since then, our International division has built a book of more than $800m of highly diversified insurance products, with 563 employees in five European countries (United Kingdom, Spain, France, Germany and Ireland).

With a focus on customer service and underwriting profitability, Tokio Marine HCC offers a highly diversified portfolio of niche products, which can be tailored to customers' needs. We offer specialist capabilities to individuals and a wide variety of businesses, from small and medium-sized enterprises to multinational global corporations. Our capabilities and products can be grouped into the following categories:

Credit, Surety and Political Risk

Our Credit and Political Risk experts offer a full range of credit and political risk insurance solutions to reduce a company's credit risk and protect cash flows from serious payment delays, insolvency, administration and liquidation, while mitigating risks from political and economic instability, government interventions, insolvencies and defaults. This coverage is available to all types of businesses, from the small local trader to the large quoted company, across a broad range of industry sectors, including financial institutions. Our policies provide comprehensive cover, and we have flexibility to tailor our products to meet specific needs.

Our Surety experts provide a broad choice of contract (performance, advance payment and retention monies) and commercial bonds (custom, environmental, pension and travel) tailored to our customers' needs. We also partner with banks through bank participation agreements.

Professional Risks and Financial Lines

Out of our various locations in the UK and in Continental Europe, our market-leading Professional Risks and Financial Lines teams are passionate about offering a comprehensive suite of insurance solutions to companies of all sizes, all activities (commercial or financial), and locations in virtually every corner of the globe. Our products include Professional Indemnity (PI), Cyber Liability, Directors' & Officers' (D&O) Liability, Employers' Liability (EL), Public Liability (PL), Employment Practice Liability (EPL), Contractors All Risks (CAR), Financial Institution (FI) bonds, Commercial Crime, Kidnap and Ransom (K&R), and Transaction Risk Insurance (TRI).

London Market Lines

We are recognised as a leader in the London Market and provide an extensive range of cover to companies of all sizes in the following lines of business:

Accident & Health

Underwriting a specialised portfolio of Accident and Health insurance and reinsurance business worldwide.

Marine & Energy

Underwriting a broad range of energy risks, from upstream exploration and production, through midstream storage and transmission, to downstream refining and petrochemical activities, as well as hull and machinery risks on ocean-going tonnage, yachts, port authorities, liabilities and some inland and coastal hull business.

Commercial Property (Direct and Facultative) and Property Treaty Reinsurance

Offering worldwide capacity on both a risk and catastrophe basis for a range of products including property, engineering, terrorism and crop. We are also well known for lead-and-follow capacity on subscription business and have extensive experience in the London market.

> The global reach of Tokio Marine brings considerable additional growth opportunities to our existing businesses...

Finally, our underwriting knowledge and specialist expertise mean we can provide:

- Travel and medical insurance services to a wide range of customers across the globe
- A full suite of protections for the sports, entertainment and promotional industries
- Solutions for contingency risks, including event cancellation, television and film production, and promotional activity
- Comprehensive insurance against disability for executives and for those in sports professions and the entertainment industry.

The Future

The global reach of Tokio Marine brings considerable additional growth opportunities to our existing businesses, enabling us to continue to invest in market-leading capabilities across a wide range of market specialties. Becoming part of Tokio Marine means that we gained a greater international footprint, and as our recent continued appetite for expansion demonstrates, we are keen to grow our diverse portfolio and expertise globally. With Tokio Marine, we are able to compete on the main stage with some of the largest global insurance groups. With enhanced coverages and broad group-level expertise, we are perfectly positioned to take advantage of the growing demand for our tailored products and underwriting knowledge.

Spotlight
To Be a Good Company

At Tokio Marine HCC, we are committed to supporting the needs of our employees, customers, the local community and wider society. Central to this approach is the belief that our business objectives must be strategically compatible with our behavioural, social and environmental obligations as a leading global insurer.

To ensure we meet the standards we have set for ourselves, which are now reinforced through Tokio Marine's vision of being a Good Company, we have revamped and strengthened our Corporate Social Responsibility programme around four key pillars. These pillars support our approach to the community, our workplace, our marketplace and the wider environment.

To Be a ***Good Company***

The objectives of these four pillars are:

- Community – mutually beneficial engagement with the local and wider community;
- Workplace – creation of a working environment for employees characterised by equal opportunities, training and personal development, and regular and open communication;
- Marketplace – commitment to treat customers fairly; monitor and confront financial crime; and comply with the Tokio Marine HCC Code of Business Conduct and Ethics; and
- Environment – reduction of Tokio Marine HCC's carbon footprint.

This year, we are delighted to have launched the HCC100: 100 people aiming to walk, jog or run 100 km to raise funds for charities. This initiative will take place in September 2016 as a large group of our employees, family and friends join the Thames Path Challenge, an event organised by Action Challenge. In addition, a triathlon is being undertaken by our Bridgend office.

To Be a Good Company also means being a responsible employer. This strategic commitment ensures our employees can work in an environment where equality and diversity thrive, as well as having the opportunity to advance through access to training and development programmes.

This year, we are delighted to have launched the HCC100: 100 people aiming to walk, jog or run 100 km to raise funds for charities.

Annual Report and Financial Statements

HCC International Insurance Company PLC

Year ended 31 December 2015

Company Information

Directors

S A Button

B J Cook (Chief Executive Officer)

T J G Hervy

N I Hutton-Penman BSc, ACA

K L Letsinger BSc, CPA

N C Marsh (non-executive Chairman)

H-D Rohlf (non-executive)

C Scarr (non-executive)

W R Treen BSc, FIA (non-executive)

Company secretaries

D R Feldman

J L Holliday ACIS

R L Hughes FCA

N J Walklett ACA

Registered number

01575839

Registered office

1 Aldgate
London EC3N 1RE

Independent auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
7 More London Riverside
London SE1 2RT

Strategic Report

The directors of HCC International Insurance Company PLC ('HCCI') present their strategic report and the audited financial statements of the Company for the year ended 31 December 2015 ('the financial statements').

Principal activities

The principal activity of the Company is the transaction of general insurance and reinsurance business in the United Kingdom and Continental Europe where it benefits from the European Union Freedom of Services charter to write across the European Union member states. The Company is the flagship carrier for HCC Group's International operations. International Group business is also written on two other platforms; Houston Casualty London Branch ('HCL') and Syndicate 4141 ('the Syndicate'). Operating from a number of offices across the UK and branches in Spain, Ireland, Germany, Italy, France and Switzerland, the Company is authorised by the Prudential Regulation Authority and regulated by both the Financial Conduct Authority and the Prudential Regulation Authority.

HCCI's ultimate parent company is Tokio Marine Holdings, Inc. ('TMHD') whose head office is located in Tokyo, Japan. TMHD is a leading international insurance group with offices worldwide. As of 31 December 2015, TMHD had total assets of YEN ¥21.9 trillion and shareholders' equity of YEN ¥3.6 trillion. TMHD and its subsidiary insurance companies have a financial strength rating of A+ (Stable) from Standard & Poor's Financial Services LLC.

TMHD acquired HCC Insurance Holdings, Inc. ('HCC') on 27 October 2015 ('the Acquisition'). Prior to that date, the Company's ultimate parent was HCC Insurance Holdings, Inc. ('HCC') whose head office is located in Houston, Texas. HCC is now an intermediate holding company of HCCI and continues to manage the HCC group.

The International Group underwriters underwrite 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 underwritten include Property Treaty, Property Direct and Facultative, Accident and Health, Energy, General Liability, Marine Hull, Financial Lines, Credit and Political Risk and Contingency. Financial Lines is underwritten through HCC Global Financial Products S.L. ('HCCG'), which is a wholly owned subsidiary of HCC. The Company has grown significantly in recent years as HCC has added to its international product offerings and made increasing use of its European licenses.

Effective 31 March 2015, the assets, liabilities and operations of Houston Casualty Company Europe, Seguros y Reaseguros, S.A. ('HCCE'), previously a wholly owned subsidiary of the Company, was merged with the Company ('the Merger').

Strategy and market conditions

The Company's business philosophy and strategic focus is to underwrite profitable business which includes careful risk selection and reinsurance purchasing in order to preserve shareholder's equity and to meet its target risk adjusted return on capital. Underwriting is concentrated in selected, narrowly defined, speciality lines of business where consistent underwriting profit can be achieved. Our experienced underwriting personnel with access to, and expertise in, the insurance and reinsurance marketplace have enabled the Company to achieve its strategic objectives. The current rating environment for the London Market lines of business (principally Energy and Marine, Property Direct and Facultative and Property Treaty business) is extremely challenging as a result of excess capital in the market and will likely result in decreased premium volumes. Whilst, the Specialty lines of business (Credit, Surety, Financial Lines and Casualty) are also subject to the same rating conditions, they continue to grow organically due to a combination of unique distribution channels and disciplined risk selection. The Company continues to benefit from the strong financial strength rating which remains a significant differentiator and a key selling point in many of the markets in which the Company operates, particularly Surety and Financial Lines.

Results and performance

For 2015 the Company has presented its result in US dollars whereas in previous years the Company reported in pound sterling. Prior year comparatives have been restated as US dollars. The Company made a net profit for the financial year of $41.2m (2014: $56.5m), as set out on pages 20 and 21 and as restated under New UK GAAP, see Note 3. This is driven principally by an increase in underwriting profits (set out as the increase in balance on the technical account) from $94.6m to $100.6m which has been offset by investment performance in a volatile market and other items, principally accelerated vesting of shared based compensation associated with the Acquisition.

The Company has also recorded an exceptional expense totalling $8.2m related to its investment in HCCE reflecting the decrease in the net book value of the subsidiary in 2015 prior to the Merger (2014: $34.2m expense).

The combined ratio for 2015 totalled 75.4% (2014: 75.3%) which included benign catastrophe environment and low attritional loss experience for 2015 and 2014. Both years benefited from the release of prior accident year reserve releases of $27.5m and $17.2m respectively, and contributed to a reduction in the 2015 loss ratio of 2.9% (2014: 10.2%).

The US dollar average exchange rate strengthened in 2015 to £1 = 1.53 (2014: 1.65) and €1 = 1.11 (2014: 1.33). This reduced the value of Sterling and Euro income (which comprises 70.1% of total gross written premium) and expenses when translated into reporting US dollars.

		2015	Restated 2014
Gross premiums written		$536.4m	$529.7m
Net premiums written	Net of reinsurance	$409.5m	$394.4m
Underwriting result	Balance on technical account (before investment income and equalisation provision)	$95.9m	$90.7m
Net loss ratio	Ratio of net incurred claims (excluding equalisation reserve) to net earned premiums	31.9%	34.8%
Net combined ratio	Ratio of total technical charges (before investment income and equalisation provision) to net earned premiums	75.4%	75.3%
Investment return	Total investment return (excluding intercompany dividends and foreign exchange)	$7.2m	$36.1m
Cash and investments	Excluding investment in subsidiaries and land and buildings	$1,099.2m	$933.0m
Total shareholder's funds		$479.4m	$446.2m

Overall, the directors are satisfied with the Company's operations and its financial position as at the end of the year.

Gross premium written

Gross written premium totalled $536.4m in 2015 (2014: $529.7m). The $6.7m increase in premium was driven by the organic growth of the Specialty businesses, offset by the decrease in London Market lines which is consistent with the rating environment and general market conditions. In particular, the growth in Specialty business is largely due to Surety and Lifestyle Travel business (which is included as Other in the GWP table), that has grown substantially reflecting the Company's entry into this line of business in 2015.

Top line growth has been dampened due to average Sterling and Euro rates of exchange which have weakened against the dollar by 7.2% and 16.1%, respectively. This has affected both the Specialty and London Market sub-segments where a substantial portion of the business is written in Sterling and Euro transaction currencies, in addition to the US Dollar. The foreign exchange effect on gross written premium is shown in the table below.

Gross Premium Written	2015 GPW $'m	2014 GPW $'m	Increase/(Decrease)		2014 GPW at 2015 rate $'m	Increase/(Decrease)	
			$'m	% change		$'m	% change
Financial Lines	125.3	117.1	8.2	7.0%	108.6	16.7	15.4%
Casualty	116.5	111.8	4.7	4.2%	103.7	12.8	12.3%
Credit & Political Risk	88.6	85.4	3.2	3.7%	79.2	9.4	11.9%
Surety	66.8	57.1	9.7	16.9%	53.0	13.8	26.0%
Other	16.8	2.9	13.9	479.3%	2.7	14.1	522.2%
Total Specialty Segment	**414.0**	**374.3**	**39.7**	**10.6%**	**347.2**	**66.8**	**19.2%**
Marine & Energy	54.8	71.1	(16.3)	(22.9)%	66.0	(11.2)	(16.9)%
Property Treaty	51.0	61.8	(10.8)	(17.5)%	57.4	(6.4)	(11.1)%
Property D&F and A&H	16.6	22.5	(5.9)	(26.2)%	20.9	(4.3)	(20.6)%
Total London Market	**122.4**	**155.4**	**(33.0)**	**(21.2)%**	**144.3**	**(21.9)**	**(15.2)%**
Total	**536.4**	**529.7**	**6.7**	**1.3%**	**491.5**	**44.9**	**9.1%**

Speciality

Financial Lines gross premium written has increased 7.0% to $125.3m (2014: $117.1m); 15.4% excluding the effect of currency. The Financial Lines business consists of: Directors and Officers liability, Financial Institutions bonds and Commercial crime, Excess Professional Indemnity and Transaction Risk Insurance (TRI) business. Despite the difficult economic environment and the claims development experienced by some of our peers on previous underwriting years, the market continued to see rate decreases in the core product offering which resulted in decrease in premium volume in this area but this was more than offset by growth in TRI business which continues to be a relatively buoyant segment of the market.

Casualty gross premium written has increased 4.2% to $116.5m (2014: $111.8m); 12.3% excluding the effect of currency. The business is comprised of Professional Indemnity and Liability business with continued organic growth through product development and increased regional presence. The Professional Indemnity business is high volume, low premium business underwritten through regional brokers with a focus on client service. Target clients are smaller, lower risk businesses. The Liability business comprises niche products covering lower risk trades and is made up of single risk and select affinity business.

Credit & Political Risk gross premium written has increased 3.7% to $88.6m (2014: $85.4m); 11.9% excluding the effect of currency. This is despite the challenging environment due to increased competition and less insolvency due to the upturn in the economy. Our niche Credit products include UK Credit business where high service standards position the Company well with clients and business retention is historically good. This book of business has grown through increased distribution channels. Additionally, the other Credit and Political Risk business has maintained its market position with continued benefit from the Company's financial rating.

Surety gross premium written has increased 16.9% to $66.8m (2014: $57.1m); 26.0% excluding the effect of currency. This is principally due to Surety business previously written by HCCE which is now written by the Company. Additionally, the UK Surety business continued to benefit from improved economic conditions in the UK resulting in increased construction activity and marketing through new business channels. The Company's position in the market and its AA rating give us good opportunities to sell bond cover to support large multi-national companies with significant infrastructure projects.

Other has increased by $13.9m given the Company's entry into Lifestyle travel business in 2015.

London market

Marine & Energy gross premium written decreased 22.9% to $54.8m (2014: $71.1m). The Energy market remains very competitive both onshore and offshore driven by the competitive rating environment compounded by the effect of lower oil prices and resulting lower production and investment in the industry which leads to reduced demand for insurance coverage. The difficult environment will likely continue for the foreseeable future with possible further contraction of premium volume.

Property Treaty gross premium written decreased 17.5% to $51.0m (2014: $61.8m). This is the result of the continuing significant pressure on rates and conditions. The inflows of the collateralised markets are a substantial contributor to the competitive environment.

Property Direct & Facultative and Accident & Health gross premium decreased 26.2% to $16.6m (2014: $22.5m). The decrease is due to continued substantial rate reductions and therefore non-renewal of property business. The Accident and Health rating environment is more stable and gross premium written is consistent with 2014.

Investment performance

During 2015, the Company reviewed its investment risk appetite and asset allocations resulting in a partial reallocation of the portfolio to equity investments. Additionally, the Company sold asset backed securities considered Type II investments within the Standard Formula SCR given such securities are subject to punitive capital charges and compliance burden. At 31 December 2015, the Company held 6.6% of the portfolio in equity investments.

General Re-New England Asset Management were investment managers for the US dollar, Sterling and Euro funds throughout the year. The funds consist primarily of a portfolio of highly rated Corporate Bonds, which are BBB rated and above, including Bonds guaranteed by the US, UK and German governments. The average duration of the aggregate portfolios at the year-end was 3.75 years (2014: 3.96 years).

The performance of the managed funds summarised below are based on the original currency portfolio results. The annualised investment returns for the US dollar portfolio was 1.36% (2014: 4.56%), Sterling portfolio was 1.01% (2014: 4.85%) and the Euro portfolio was 0.01% (2014: 4.42%).

The US dollar portfolio underperformed the benchmark during 2015 as a result of the overweight to BBB rated Corporates, which was partially offset by the positive contribution of the overweight Taxable Municipal sector returning over 3.25% in 2015. Whilst performance was down for BBB Corporates, over time it is expected the investments should generate price performance above the general market.

The Sterling portfolio return was in line with the benchmark as Corporate, Quasi and Sovereign returns were all very similar during the year.

The return on the Euro portfolio underperformed the benchmark in 2015. A large percentage of bonds within the Euro market generate negative yields and therefore, investments in such securities are not considered appropriate. Therefore, in an effort to hold positive yielding bonds, more Corporates were purchased with longer durations than the benchmark, which resulted in returns being below the benchmark.

The equity portfolio is managed by Goldman Sachs Asset Management (GSAM) with a strategy focussed on broad market exposures with lower beta stocks, which yield higher dividends. The equity portfolio was invested during the fourth quarter and yielded dividend income of $0.8m.

Earned investment income (excluding dividends from investment in subsidiaries) of $20.8m is consistent with the prior year of $20.4m, although price movements resulted in $13.6m net unrealised losses in 2015. This is contrasted with $15.7m net unrealised investment gains in 2014.

Future outlook

The Company continues to consider profitable opportunities in new lines of business, through both teams and potential acquisitions. In addition, the Company looks to organically grow its existing lines of business. The directors continually appraise the current portfolio and ways to expand into complementary lines. The Company is also exploring opportunities in new territories, setting up branches in Germany and Italy in 2015.

Dividends

Dividend paid during the year totalled $8,700,000 (2014: $nil). No final dividend is recommended.

On behalf of the board

B J Cook
Chief Executive Officer

1 Aldgate
London EC3N 1RE
31 March 2016

Directors Report

The directors present their Directors' Report and the audited financial statements of the Company for the year ended 31 December 2015.

Directors

The directors set out below have held office from 1 January 2015 to the date of this report unless otherwise stated:

S A Button

B J Cook

K J Cordier (resigned 30 June 2015)

T J G Hervy

N I Hutton-Penman BSc, ACA

K L Letsinger BSc, CPA

N C Marsh

J L T Newbegin (resigned 30 June 2015)

H-D Rohlf

C Scarr (appointed 12 June 2015)

W R Treen BSc, FIA

Matters disclosed in the Strategic Report

The following matters which are required to be disclosed in the Directors' Report have been disclosed in the Strategic Report:

- principal activities
- branches located outside the UK
- recommended dividend; and
- future outlook.

Independent auditors

The auditors, PricewaterhouseCoopers LLP, have expressed their willingness to continue in office as auditors.

Statement of disclosure of information to auditors

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

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are not aware; and
- the director has taken all 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 Company's auditors are aware of that information.

Statement of directors' responsibilities

The directors are responsible for preparing the financial statements in accordance with applicable law and regulations. Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom concerning the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

On behalf of the Board

B J Cook
Chief Executive Officer

1 Aldgate
London EC3N 1RE
31 March 2016

Independent Auditors' Report to the members of HCC International Insurance Company PLC

Report on the financial statements

Our opinion
In our opinion, HCC International Insurance Company PLC's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 December 2015 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited
The financial statements, included within the Annual Report, comprise:

- the balance sheet as at 31 December 2015;
- the profit and loss account for the year then ended;
- statement of comprehensive income for the year then ended;
- statement of changes in shareholder's equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", having regard to the statutory requirement for insurance companies to maintain equalisation provisions. The nature of equalisation provisions, the amounts set aside as at 31 December 2015, and the effect of the movement in those provisions during the year on the Company's shareholders' funds, the balance on the Company's general business technical account and the Company's profit before tax, are disclosed in notes 3(f) and 24.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received
Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration
Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors
As explained more fully in the Statement of Directors' Responsibilities set out on page 17, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves
We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Paul Pannell (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
31 March 2016

Profit and Loss Account

For the year ended 31 December 2015

Technical account – general business	Note	2015 $'000s	Restated 2014 $'000s
Earned premiums, net of reinsurance			
Gross premiums written	6	536,394	529,721
Outward reinsurance premiums		(126,864)	(135,320)
Net premiums written		409,530	394,401
Change in the gross provision for unearned premiums		(20,767)	(30,187)
Change in the provision for unearned premiums, reinsurers' share		1,768	3,468
Change in the net provision for unearned premiums		(18,999)	(26,719)
Earned premiums, net of reinsurance		390,531	367,682
Earned investment income transferred from the non-technical account	13	20,758	20,428
Total technical income		411,289	388,110
Claims incurred, net of reinsurance			
Claims paid:			
– gross amount		176,876	131,629
– reinsurers' share		(56,652)	(26,107)
Net claims paid		120,224	105,522
Change in the provision for claims:			
– gross amount		42,574	54,221
– reinsurers' share		(38,328)	(31,685)
Change in the net provision for claims		4,246	22,536
Claims incurred, net of reinsurance	8	124,470	128,058
Net operating expenses	9	170,118	148,881
Change in equalisation provision	24	16,057	16,616
Total technical charges		310,645	293,555
Balance on the technical account for general business	6	100,644	94,555

All amounts relate to continuing operations.

Non-technical account	Note	2015 $'000s	Restated 2014 $'000s
Balance on the technical account for general business		100,644	94,555
Investment income	13	24,524	27,253
Unrealised gains on investments	13	210	15,667
Investment expenses and charges	13	(3,718)	(2,492)
Unrealised losses on investments	13	(13,785)	–
Earned investment income transferred to general business technical account	13	(20,758)	(20,428)
FX losses from revaluation of investments	13	(13,662)	(20,119)
Other (charges)/income	14	(5,660)	23,416
Profit on ordinary activities before tax and exceptional items		67,795	117,852
Exceptional items	16	(8,233)	(34,229)
Profit on ordinary activities before tax		59,562	83,623
Tax on profit on ordinary activities	15	(18,334)	(27,160)
Profit for the financial year		41,228	56,463

Statement of Comprehensive Income

For the year ended 31 December 2015

	Note	2015 $'000s	Restated 2014 $'000s
Profit for the financial year		41,228	56,463
Distributions from subsidiary undertakings	13	(32)	(4,315)
Dividend paid	23	(8,700)	–
Revaluation of subsidiary undertakings	19	948	1,741
Total recognised gains for the year		33,444	53,889

Balance Sheet

For the year ended 31 December 2015

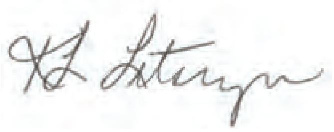
Assets	Note	2015 $'000s	Restated 2014 $'000s
Intangible assets			
Goodwill	17	9,270	10,815
Investments			
Land and buildings	18	239	239
Investment in subsidiary undertakings	19	7,501	44,633
Other financial investments	20	1,062,895	896,408
		1,070,635	941,280
Reinsurers' share of technical provisions			
Provision for unearned premiums		66,554	65,605
Claims outstanding		293,688	146,016
		360,242	211,621
Debtors			
Debtors arising out of direct insurance operations			
– Policyholders		27,209	26,032
– Intermediaries		59,271	46,565
Debtors arising out of reinsurance operations		80,468	51,664
Other debtors	21	22,714	12,397
		189,662	136,658
Other assets			
Tangible assets	22	2,725	3,852
Deposits from third parties		48,011	48,823
Cash at bank and in hand		36,350	36,588
		87,086	89,263
Prepayments and accrued income			
Accrued interest and rent		8,811	7,462
Deferred acquisition costs	9	74,394	65,305
Other prepayments and accrued income		182	60
		83,387	72,827
Total assets		1,800,282	1,462,464

Balance Sheet

For the year ended 31 December 2015

Liabilities	Note	2015 $'000s	Restated 2014 $'000s
Capital and reserves			
Called up share capital	23	224,405	224,405
Revaluation reserve		7,546	6,630
Other reserves		–	310
Profit and loss account		247,423	214,895
Total shareholder's funds		479,374	446,240
Technical provisions			
Provision for unearned premiums		289,977	268,161
Claims outstanding		750,029	495,498
Equalisation provision	24	96,225	80,168
		1,136,231	843,827
Creditors			
Creditors arising out of direct insurance operations		12,624	5,799
Creditors arising out of reinsurance operations		58,294	49,629
Other creditors including taxation and social security	25	27,030	34,989
Deposits from third parties		48,010	48,823
		145,958	139,240
Accruals and deferred income		38,719	33,157
Total liabilities		1,800,282	1,462,464

The financial statements on pages 20 to 56 were approved by the Board of Directors and were signed on its behalf by



K L Letsinger
Director
31 March 2016

Statement of Changes in Shareholder's Equity

For the year ended 31 December 2015

Capital and reserves	Called up share capital $'000s	Revaluation reserve $'000s	Other reserves $'000s	Profit and loss account $'000s	Total shareholder's equity $'000s
At 1 January 2015	224,405	6,630	310	214,895	446,240
Profit for the financial year				41,228	41,228
Share based compensation charge on exercise			(310)		(310)
Dividends paid				(8,700)	(8,700)
Revaluation of subsidiary undertakings (Note 19)		948			948
Dividend from subsidiary undertakings (Note 19)		(32)			(32)
At 31 December 2015	224,405	7,546	–	247,423	479,374

Capital and reserves	Called up share capital $'000s	Revaluation reserve $'000s	Other reserves $'000s	Profit and loss account $'000s	Restated Total shareholder's equity $'000s
At 1 January 2014	206,045	4,889	1,360	158,432	370,726
Profit for the financial year				56,463	56,463
Share based compensation charge on exercise			(1,050)		(1,050)
Shares issue (Note 23)	18,360				18,360
Revaluation of subsidiary undertakings (Note 19)		1,741			1,741
At 31 December 2014	224,405	6,630	310	214,895	446,240

Notes to the Financial Statements

1. General information

HCC International Insurance Company PLC ('the Company') is authorised by the Prudential Regulation Authority and regulated by both the Financial Conduct Authority and the Prudential Regulation Authority. The principal activity of the Company is the transaction of general insurance business in the United Kingdom and Continental Europe where it benefits from the European Union Freedom of Services charter to write across the European Union member states. The Company operates from a number of offices across the UK and also has branches in Spain, Ireland, France, Switzerland, Germany and Italy. The Company is a private company limited by shares and is incorporated in England. The address of its registered office is 1 Aldgate, London EC3N 1RE.

2. Statement of compliance

The individual financial statements of the Company have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ('FRS 102'), Financial Reporting Standard 103, "Insurance Contracts" ('FRS 103') and the Companies Act 2006. FRS 102 and 103 are collectively referred to as 'New UK GAAP'. The financial statements have been prepared in compliance with the provisions of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations relating to insurance entities.

3. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. Details of the transition to FRS 102 and FRS 103, which are effective from 1 January 2015, are disclosed in Note 28. These policies have been consistently applied to all the years presented, unless otherwise stated. In particular, in adopting New UK GAAP, the Company has accounted for unearned premium and deferred acquisition costs as monetary liabilities and assets. Prior to FRS 102, these items were accounted for as non-monetary items and converted at historic rates.

a. Basis of preparation

These financial statements have been prepared in conformity with New UK GAAP. New UK GAAP requires financial statement disclosure about the use of certain critical accounting estimates for which management has exercised judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

Comparatives

Comparative amounts have been adjusted to conform to changes in accounting policies and presentation in the current year.

b. Going concern

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

c. Exemptions for qualifying entities under FRS 102

As allowed by FRS 102, the Company has applied certain exemptions as follows:

i. preparing group financial statements. The financial statements present information about the Company as an individual undertaking and not about its group, except for accounting for its investment in subsidiary undertakings at current net asset value (see Note 19)

ii. preparing a statement of cash flows

iii. share compensation expense, and

iv. related party disclosures.

d. Foreign currency

The Company's accounting records are maintained in US Dollars, which is the Company's functional currency. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the transaction date. At each period end, foreign currency monetary assets and liabilities are translated using the closing rate. For this purpose all assets and liabilities arising from insurance contracts (including unearned premiums, deferred acquisition costs and unexpired risks provisions) are monetary items. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the non-technical profit and loss account.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of non-monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income for those items where the gain is required to be recognised within other comprehensive income, and in the non-technical account where the gain is required to be recognised within profit or loss.

The foreign exchange rates used for translation to the reporting currency are set out below.

a. Assets and liabilities at the closing rate at the balance sheet date which for Sterling was £1 = US$1.4826 (2014: US$1.5535).

b. Income and expenses at the average rate during the year which for Sterling was £1 = US$1.5261 (2014: $1.6453).

For reporting its 2015 results, the Company changed its reporting currency from pounds sterling to US Dollars. The 2014 comparative financial statements have been restated to reflect US Dollars reporting currency.

e. Insurance contracts

i. Classification of insurance and investment contracts
The Company issues insurance contracts that transfer significant insurance risk. The Company 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 Company not yet notified. Outward reinsurance premiums are accounted for in the same accounting year as the premiums for the related inwards business.

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.

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 loss adjustment expenses, together with any other adjustments to claims for previous years. Where applicable, deductions are made for salvage and other recoveries.

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 Company. The estimated cost of claims includes expenses to be incurred in settling claims and deduction for expected value of salvage and other recoveries. The Company 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.

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 Company, where more information about a claim event is generally available. Claims IBNR may often not be apparent to the insurer 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 event tend to display lower levels of volatility. In calculating the estimated cost of unpaid claims the Company uses a variety of estimation techniques, generally based upon statistical analyses 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:

- changes in Company processes which might accelerate or slow down the development and/or recording of paid or incurred claims compared with the statistics from previous periods
- changes in the legal environment
- the effects of inflation
- changes in the mix of business
- the impact of large losses, 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 Company 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, or projected separately, in order to allow for the possible distortive effect of the development and incidence of these large claims.

Where possible, the Company 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.

Credit and Surety, London Market and Other Business
The majority of this business is "short tail", that is, where claims are usually made during the term of the policy or shortly after the policy has expired. The cost of claims notified to the Company at the balance sheet date is estimated on a case-by-case basis to reflect the individual circumstances of each claim. The ultimate expected cost of claims is projected from this data by reference to statistics which show how estimates of claims incurred in previous years have developed over time to reflect changes in the underlying estimates of the cost of notified claims and late notifications.

Professional Indemnity and Financial Lines
These claims are longer tail than those of the other classes of business described above and so a larger element of the claims provision relates to IBNR. Claims estimates for the Company's Professional Indemnity business are derived from a combination of loss ratio based estimates and an estimate based upon actual claims experience. The initial estimate of the loss ratio is based on the experience of previous years, adjusted for factors such as premium rate changes, claims inflation and market environment. The estimate of claims inflation and anticipated market environment is particularly sensitive to the level of court awards and to the development of legal precedent on matters of contract.

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

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

Unexpired risks provision
Provisions are made for any deficiencies arising when unearned premiums, net of associated acquisition costs, are insufficient to meet expected claims and expenses after taking into account future investment return on the investments supporting the unearned premiums provision and unexpired risks provision. The expected claims are calculated based on information available at the balance sheet date.

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

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

f. Equalisation provision
An amount is set aside as equalisation provision in accordance with the PRA's Handbook for the purpose of mitigating exceptionally high loss ratios in future years. The amounts provided are not liabilities because they are in addition to the provisions required to meet the anticipated ultimate cost of settlement of outstanding claims at the balance sheet date. Notwithstanding this, they are required by Schedule 3 to SI 2009/410 to be included within technical provisions. Under Solvency 2, this requirement has been amended and the equalisation provision will be reversed with effect from 1 January 2016.

g. Exceptional items
The Company classifies charges or credits which are unusual and material as exceptional items separately on the profit and loss account in order to provide further understanding of the financial performance of the Company.

h. Taxation
Current tax is provided at the current rate of corporation taxation on the results for the year as adjusted by items of income and expenditure which are disallowed for taxation purposes.

Deferred tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is calculated at the rates at which it is expected that the tax will arise. Deferred tax is recognised in the Profit and Loss Account for the period, except to the extent that it is attributable to a gain or loss that is recognised directly in the Statement of Comprehensive Income. Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax balances are not discounted.

i. Business combinations
Merger and Portfolio transfer
Effective 31 March 2015, the assets, liabilities and operations of Houston Casualty Company Europe, Seguros y Reaseguros, S.A. (HCCE), previously a wholly owned subsidiary of the Company, was merged with the Company (the Merger). The Directors have elected to account for the Merger as a portfolio transfer at the date of the Merger in accordance with FRS 103 (see Note 7).

j. Intangible assets
Intangible assets are stated at cost less accumulated amortisation and accumulated impairment expense. Amortisation is calculated, using a straight-line method, to allocate the depreciable amount of the assets to their residual values over their estimated useful lives. Amortisation and any impairment expense are charged to other charges in the non-technical account. Intangible assets' residual values and useful lives are reviewed, and adjusted, if appropriate, at the end of each reporting period. The effect of any change is accounted for prospectively.

k. Goodwill
The Company's goodwill arose from the purchase of a book of Professional Indemnity business from another group company in 2006 (see Note 17) and was capitalised at cost and is being amortised over its useful economic life on a straight line basis over 15 years (see Note 14). Each year the directors consider whether the carrying value of the goodwill has been impaired due to events or changes in circumstances which indicate that its value may not be recoverable.

l. Land and buildings held as investments
Land and buildings held as investment properties are valued at open market valuation which is supported by periodic independent valuations performed by a professionally qualified individual. On an annual basis, the directors utilise the most up to date valuation and, with the assistance of independent professional advice, determines an appropriate valuation. The aggregate surplus or deficit on revaluation of investments properties is taken to the non-technical account. Should the valuation fall below its cost, the deficit is written off as impairment through the profit and loss account.

m. Tangible assets
Tangible assets are stated at cost, or open market valuation, less accumulated depreciation and accumulated impairment expense. Cost includes the original price, costs directly attributable to bringing the assets to its working condition for its intended use, dismantling and restoration costs.

Tangible assets are capitalised and depreciated on a straight line basis over their estimated useful lives as follows:

- Leasehold improvements 10%
- Computer equipment 33%
- Fixtures, fittings and office equipment 20%

Although the Companies Act 2006 states that all tangible assets should be depreciated, owner occupied land and buildings is not depreciated on the basis that the depreciation charge is immaterial as the net realisable value of the property is greater than the carrying value.

n. Impairment of non-financial assets
At each balance sheet date non-financial assets not carried at fair value are assessed to determine whether there is an indication that the asset may be impaired. If so, the recoverable amount of the asset is compared to the carrying amount of the asset with an impairment loss recognised through the profit and loss account.

If an impairment loss is subsequently reversed, the carrying amount of the asset (or asset's cash generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the revised carrying amount does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised in prior periods. A reversal of an impairment loss is recognised in the profit and loss account.

o. Investments in subsidiary undertakings
Investments in subsidiary undertakings are stated in the Balance Sheet at fair value with changes in fair value recognised through the statement of comprehensive income.

p. 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.

q. Provisions and contingencies
Provisions
Provisions are recognised when:

- the Company 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.

Contingencies
Contingent liabilities arise as a result of past events when:

i. it is not probable that there will be an outflow of resources or that the amount cannot be reliably measured at the reporting date, or

ii. when the existence will be confirmed by the occurrence or non-occurrence of uncertain future events not wholly within the Company's control.

Contingent liabilities are disclosed in the financial statements unless the probability of an outflow of resources is remote. Contingent assets are not recognised. Contingent assets are disclosed in the financial statements when an inflow of economic benefits is probable. Contingent assets stop being recognised as contingent at the point it is determined the benefit is virtually certain.

r. Financial instruments

The Company has chosen to early adopt FRED 62 and apply 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.

s. Financial assets

The Company classifies its financial assets into the following categories:

- Shares and other variable yield 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
- Equity securities, and
- Deposits with credit institutions – loans and receivables.

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

Financial assets designated as 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 Company's key management personnel. The Company's investment strategy is to invest in fixed and variable interest rate debt securities and units in unit trusts. The fair values of financial instruments traded in active markets are based on quoted bid prices on the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

The fair values of financial instruments that are not traded in an active market (for example, corporate bonds), are established by the directors using valuation techniques which seek to arrive at the price at which an orderly transaction would take place between market participants.

Net gains or losses arising from changes in the fair value of financial assets at fair value through profit or loss are presented in the profit and loss account within 'unrealised gains on investments' or 'unrealised losses on investments' in the period in which they arise.

Deposits with credit institutions – Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the Company intends to sell in the short term or that it has designated as at fair value through profit or loss. When a financial liability is recognised initially it is measured at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial liability. Loans and receivables are subsequently measured at amortised cost using the effective interest 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.

t. Impairment of financial assets

For financial assets not at fair value through profit or loss, the Company 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 Company 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 Company.

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 assets' 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. 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.

u. 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.

v. Investment return
Interest income is recognised using the effective interest rate method. Dividend income is recognised when the right to receive payment is established. Rental income and 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 for 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 account. A transfer is made from the non-technical account to the technical account for the earned investment income on investments supporting the insurance technical provisions and related shareholder's funds.

w. Distributions to equity holders
Dividends and other distributions to the Company's shareholders are recognised as a liability in the financial statements in the period in which the dividends and other distributions are approved by the shareholders and declared as payable. These amounts are recognised in the statement of changes in equity.

x. Share based payments
The Company has applied FRS 102 in its accounting for share options and restricted awards and units. See Note 14.

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 losses 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 Company's most critical accounting estimate. The carrying amount of the claims outstanding, net of reinsurance, is $456.3m (2014: $349.5m). 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. 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; however the ultimate liability will vary as a result of subsequent information and events and may result in significant adjustments to the amount provided. Adjustments to the amounts of provision are reflected in the financial statements for the period in which the adjustments are made. The methods used, and the estimates made, are reviewed regularly. See Note 5.1.iv for loss development triangles.

ii. Fair value of financial instruments
The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The carrying value of these instruments is $987.5m (2014: $813.9m). The Company 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. Estimated impairment of goodwill
In accordance with the accounting policy stated in Note 3 (k), goodwill is capitalised at cost and amortised over its useful economic life on a straight line basis over 15 years. Annual impairment reviews are not undertaken, however, on an annual basis, the directors consider whether there are any events or changes in circumstances which indicate that the carrying value of goodwill may not be recoverable. Any decrease in its value would affect the Company's financial position.

iv. Pipeline premium
The Company makes an estimate of premiums written during the year that have not yet been notified by the financial year end ('pipeline premiums') based on prior year experience and current year business volumes. The pipeline premium is booked as written 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 $35.4m (2014: $39.5m).

5. Risk Management

The Company 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 Company categorises its risks into ten areas: insurance, strategic, market, operational, credit, regulatory and legal, liquidity, group, capital management and conduct risk. The sections below outline the Company's risk appetite and explain how it defines and manages each category of risk.

5.1. Insurance risk
The Company'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, reinsurance purchasing, claims management and reserving.

Each element is considered below.

i. **Underwriting risk**
Underwriting risk relates to the potential losses arising from inadequate underwriting. There are four elements that apply to all insurance products offered by the Company:

- 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 losses 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.

We manage and model these four elements in the following three categories; attritional claims, large claims and catastrophe events.

The Company'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 Company 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 dual sign-off for all line underwriters and an escalation process for all risks exceeding individual underwriters' authority limits. Exception reports are also run regularly to monitor compliance and a rigorous peer and external review process are in place.

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

The annual Corporate budgeting process comprises a three year Plan which incorporates the Company'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 Plan is approved by the directors and monitored by the underwriting committees on a monthly basis.

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 Company 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 Company sets out its risk appetite (expressed as Probable Maximum Loss estimates (PMLs) and modelled return period events) in certain territories as well as a range of events such as natural catastrophes and specific realistic disaster scenarios which may result in large industry losses The aggregates position and modelled loss scenarios are monitored at the time of underwriting a risk and reports are regularly produced to highlight the key aggregations to which the Company is exposed.

The Company uses a number of modelling tools to monitor its exposures against the agreed risk appetite set and to simulate catastrophe losses 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 Company measures geographic accumulations and uses its knowledge of the business, historical loss behaviour and commercial catastrophe modelling software to assess the expected range of losses 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 Company's catastrophe risk appetite set by the directors is limited to a gross PML aggregate of no more than 200% of Capital and for a probability of gross catastrophe event exceeding 50% of Capital of less than 1%. 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 Company's reinsurance programme is comprised predominantly of excess of loss cover which may be overplaced to manage retentions and to protect against reinstatement costs. Prior to placement of the programme, it is modelled against significant historic and modelled events across the peak exposure areas. The programme is purchased by class of business basis, modelling catastrophe, large and attritional losses separately.

Minimum retention is set equal to the Annual Aggregate Loss (AAL) for catastrophe exposed lines. However, where market opportunity allows, additional reinsurance is purchased. Quota share and facultative reinsurance is also utilised where considered appropriate. An HCC reinsurance approval group based in Houston examines and approves all reinsurers to ensure that they possess suitable security. The Company'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 Company 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 Company brand and undermine its ability to win and retain business, or incur punitive damages. These risks can occur at any stage of the claims life cycle.

The Company'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 Company 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 Company's reserving policy is to produce accurate and reliable estimates that are consistent over time and across classes of business. The Company's reserving process is governed by the IBNR Committee, a subcommittee of the Board, which meets 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 (described in further detail below) and management's best estimate of IBNR is recorded. It is the policy of the Company to carry, at a minimum, the actuarial best estimate. It is not unusual for management's best estimate to be higher than the actuarial 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 (such as backtesting, scenario testing, sensitivity testing and stress testing) which are applied as part of the Internal Model validation process.

Development triangles of the estimate of ultimate claim cost for claims notified in a given year are presented overleaf and give an indication of the accuracy of the Company's estimation technique for claims payments. Data has been translated using 31st December 2015 foreign exchange rates throughout the triangle.

Loss development triangles – GROSS	Accident year 2011 $000	2012 $000	2013 $000	2014 $000	2015 $000	TOTAL $000
Ultimate claims and cumulative payments						
End of reporting year	265,386	165,339	201,334	172,043	477,469	
– one year later	271,952	132,843	213,544	175,510		
– two years later	256,654	140,939	209,237			
– three years later	251,684	142,253				
– four years later	231,334					
Current estimate of ultimate claims	231,334	142,253	209,237	175,510	477,469	
Cumulative payments to date	(189,125)	(83,633)	(123,722)	(58,917)	(72,948)	
Liability recognised in the balance sheet	42,209	58,620	85,515	116,593	404,521	707,458
Provision in respect of previous years						42,571
Total provision included in the balance sheet						**750,029**

Loss development triangles – NET	Accident year 2011 $000	2012 $000	2013 $000	2014 $000	2015 $000	TOTAL $000
Ultimate claims and cumulative payments						
End of reporting year	143,935	130,437	173,069	132,811	266,998	
– one year later	147,553	128,009	168,499	132,700		
– two years later	133,177	114,183	156,038			
– three years later	134,638	109,332				
– four years later	129,724					
Current estimate of ultimate claims	129,724	109,332	156,038	132,700	266,998	
Cumulative payments to date	(102,250)	(69,932)	(95,243)	(50,751)	(43,988)	
Liability recognised in the balance sheet	27,474	39,400	60,795	81,949	223,010	432,628
Provision in respect of previous years						23,713
Total provision included in the balance sheet						**456,341**

*The increase in the 2015 accident year reserves is due to the Merger, effective 1 April 2015. See Note 7.

5.2 Strategic risk

This is the risk that the Company's strategy is inappropriate or that the Company is unable to implement its strategy. Where events supersede the Company's strategic plan this is escalated at the earliest opportunity through the Company's monitoring tools and governance structure.

On a day-to-day basis, the Company's management structure encourages organisational flexibility and adaptability, while ensuring that activities are appropriately coordinated and controlled. By focusing on the needs of their 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 Company as a whole.

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 Company assets.

The investment strategy is developed by reference to an investment risk budget, set annually by the directors as part of the overall risk budgeting framework of the business. In 2015, the investment risk budget was set 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 Company's excess capital (above the regulatory minimum). This was the result of a complete investment strategy review carried out by the Company's Investment Managers, General Re-New England Asset Management Ltd. The investment risk budget will be at a similar level in 2016.

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, which 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', 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 Company's functional and reporting currency is the US dollar and the Company generally hedges currency liabilities with assets in those same currencies. Excess assets are generally held in US dollar. The effect of this on foreign exchange risk is that the Company is mainly exposed revaluation FX gains/losses of unmatched non-US Dollar denominated positions.

The Company operates in five main currencies: US dollars, Sterling pounds, Canadian dollars, Swiss Francs and euros. Transactions in all currencies are converted to the US dollar functional currency on initial recognition with any balances on monetary items at the reporting date being translated to the US dollar spot rate.

The following table summarises the carrying value of total assets and total liabilities and net profit, converted to US Dollar, categorized by the Company's main currencies:

FX risk exposure	CHF Fr $000	CAD $ $000	EUR € $000	AUD $ $000	UK £ $000	Subtotal $000	US $ $000	Total $000
31 December 2015								
Total assets	19,956	2,564	380,944	19,973	421,842	845,279	955,003	1,800,282
Total liabilities	(16,512)	(48)	(435,470)	(24,699)	(468,812)	(945,541)	(375,367)	(1,320,908)
Net assets	**3,444**	**2,516**	**(54,526)**	**(4,726)**	**(46,970)**	**(100,262)**	**579,636**	**479,374**
Net profit	**(1,411)**	**2,259**	**3,156**	**(4,576)**	**16,777**	**16,205**	**25,023**	**41,228**

FX risk exposure	CHF Fr $000	CAD $ $000	EUR € $000	AUD $ $000	UK £ $000	Subtotal $000	US $ $000	Total $000
31 December 2014								
Total assets	18,403	441	167,702	15,859	341,692	544,097	918,367	1,462,464
Total liabilities	(13,548)	(184)	(225,384)	(16,010)	(433,156)	(688,282)	(327,942)	(1,016,224)
Net assets	**4,855**	**257**	**(57,682)**	**(151)**	**(91,464)**	**(144,185)**	**590,425**	**446,240**
Net profit	**6,649**	**(1,105)**	**(25,462)**	**724**	**(74,019)**	**(93,213)**	**149,676**	**56,463**

Sensitivity analysis
Fluctuations in the Company's trading currencies against US Dollars would result in a change to net profit and net asset value. The table below gives an indication of the impact on net profit and net assets of a percentage change in the relative strength of the US dollar against the value of the Swiss franc, Canadian dollar, the Australian dollar, the euro, and pound sterling, simultaneously.

FX risk exposure – sensitivity	Impact on profit after tax		Impact on net assets	
	2015 $000	2014 $000	2015 $000	2014 $000
Change in exchange rate of Canadian dollar, Australian dollar, Euro and Pound Sterling, relative to USD Dollar				
US Dollar weakens 30% against other currencies	662	(24,650)	(30,079)	(43,256)
US Dollar weakens 20% against other currencies	441	(16,433)	(20,053)	(28,837)
US Dollar weakens 10% against other currencies	221	(8,217)	(10,026)	(14,419)
US Dollar strengthens 10% against other currencies	(221)	8,217	10,026	14,419
US Dollar strengthens 20% against other currencies	(441)	16,433	20,053	28,837
US Dollar strengthens 30% against other currencies	(662)	24,650	30,079	43,253

ii. Interest rate risk

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

The Company manages interest rate risk by investing primarily in short duration financial assets along with cash. The Investment Committee monitors the duration of these assets on a regular basis.

Changes in interest rates also impact the present values of estimated Company 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 2015	<1 yr $000	1-2 yrs $000	2-3yrs $000	3-4 yrs $000	4-5 yrs $000	5-10 yrs $000	>10 yrs $000	Total $000
Variable yield securities	19,544							19,544
Debt securities	123,212	153,332	143,915	198,061	134,014	64,289	156,058	972,881
Equity securities	70,470							70,470
Total other financial investments	**213,226**	**153,332**	**143,915**	**198,061**	**134,014**	**64,289**	**156,058**	**1,062,895**
Deposits from third parties	48,011							48,011
Cash at bank	36,350							36,350
Total	**297,587**	**153,332**	**143,915**	**198,061**	**134,014**	**64,289**	**156,058**	**1,147,256**

31 December 2014	<1 yr $000	1-2 yrs $000	2-3yrs $000	3-4 yrs $000	4-5 yrs $000	5-10 yrs $000	>10 yrs $000	Total $000
Variable yield securities	18,487							18,487
Debt securities	117,480	104,373	181,356	152,586	135,124	78,525	108,477	877,921
Total other financial investments	**135,967**	**104,373**	**181,356**	**152,586**	**135,124**	**78,525**	**108,477**	**896,408**
Deposits from third parties	48,823							48,823
Cash at bank	36,588							36,588
Total	**221,378**	**104,373**	**181,356**	**152,586**	**135,124**	**78,525**	**108,477**	**981,819**

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

	Impact on profit after tax		Impact on net assets	
Investments and cash – interest rate sensitivity	**2015 $000**	**2014 $000**	**2015 $000**	**2014 $000**
Shift in yield (basis points)				
100 basis point increase	(27,612)	(24,946)	(27,612)	(24,946)
50 basis point increase	(13,806)	(12,473)	(13,806)	(12,473)
50 basis point decrease	11,875	8,838	11,875	8,838
100 basis point decrease	23,750	17,676	23,750	17,676

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

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

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 Company are:

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

The Company's core business is to accept significant insurance risk and the appetite for other risks is low. This protects the Company's solvency from erosion so that it can meet its insurance liabilities. The Company 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 also exists for all new brokers and coverholders and their performance is carefully monitored. Regular exception reports highlight trading with non-approved brokers, and the Company'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 Company's Investment Managers regarding the type, duration and quality of investments acceptable to the Company. The performance of our Investment Managers is regularly reviewed to confirm adherence to these guidelines.

The Company has developed processes to formally examine all reinsurers before entering into new business arrangements. New reinsurers are approved by the reinsurance approval group based in Houston 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 Company's concentrations of credit risk have been categorised by these ratings as follows:

Investments and cash – credit ratings 31 December 2015	AAA $000	AA $000	A $000	BBB $000	BB $000	Total $000
Variable yield securities	19,544					19,544
Debt securities	124,580	422,138	306,117	119,033	1,013	972,881
Equity securities	70,470					70,470
Total other financial investments	**214,594**	**422,138**	**306,117**	**119,033**	**1,013**	**1,062,895**
Cash at bank	5		6,946	29,054	345	36,350
Total	**214,599**	**422,138**	**313,063**	**148,087**	**1,358**	**1,099,245**

31 December 2014	AAA $000	AA $000	A $000	BBB $000	BB $000	Total $000
Variable yield securities	18,487					18,487
Debt securities	222,493	320,820	261,075	72,646	887	877,921
Total other financial investments	**240,980**	**320,820**	**261,075**	**72,646**	**887**	**896,408**
Cash at bank	1		2,846	33,741		36,588
Total	**240,981**	**320,820**	**263,921**	**106,387**	**887**	**932,996**

The largest counterparty exposure is $178,686,000 of US Government securities (2014: $139,180,000).

Insurance receivables and other receivable balances held by the Company 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 Company's insurance and reinsurance receivables that are past due at the reporting date is presented below:

Financial assets – ageing 31 December 2015	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	293,688					293,688
Insurance debtors	73,714	7,157	2,288	3,322		86,481
Reinsurance debtors	68,589	6,659	2,129	3,091		80,468
Other debtors	22,714					22,714
Total	**458,705**	**13,816**	**4,417**	**6,413**		**483,351**

31 December 2014	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	146,016					146,016
Insurance debtors	65,506	4,852	1,109	1,130		72,597
Reinsurance debtors	46,618	3,453	789	804		51,664
Other debtors	12,397					12,397
Total	**270,537**	**8,305**	**1,898**	**1,934**		**282,674**

Fair value estimation
The following table presents the Company's financial investments measured at fair value at 31 December 2015 and 31 December 2014 categorised into levels A, B and C. The Company has elected to early adopt FRED 62 in categorising these investments. No liabilities were measured at fair value at 31 December 2015 or 31 December 2014.

Financial investments – pricing basis 2015	Level A $000	Level B $000	Level C $000	Total $000
Variable yield securities		19,544		19,544
Debt securities	4,956	967,925		972,881
Equity securities	70,470			70,470
Total other financial investments	**75,426**	**987,469**		**1,062,895**

2014	Level A $000	Level B $000	Level C $000	Total $000
Variable yield securities		18,487		18,487
Debt securities	22,476	855,445		877,921
Total other financial investments	**22,476**	**873,932**		**896,408**

New UKGAAP defines the disclosure of investments levels as follows:

- Level A – Inputs are based on quoted prices in active markets for identical instruments.
- Level B – Inputs are based on observable market data (other than quoted prices), or are derived from or corroborated by observable market data.
- Level C – Inputs are unobservable and not corroborated by market data.

Our Level A investments consist of U.S. Treasuries, money market funds and equity securities traded in an active exchange market. We use unadjusted quoted prices for identical instruments to measure fair value.

Our Level B investments include most of our fixed maturity securities, which consist of U.S. government agency securities, foreign government securities, municipal bonds (including those held as restricted securities), corporate debt securities, bank loans, middle market senior loans, foreign debt securities, mortgage-backed and asset-backed securities (including collateralized loan obligations. We measure fair value for the majority of our Level B investments using matrix pricing and observable market data, including benchmark securities or yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, bids, offers, default rates, loss severity and other economic measures. We measure fair value for our structured securities using observable market data in cash flow models.

We are responsible for the prices used in our fair value measurements. We use independent pricing services to assist us in determining fair value of all of our Level B investments. The pricing services provide a single price or quote per security. We use data provided by our third party investment managers to value the remaining Level B investments. To validate that these quoted prices are reasonable estimates of fair value, we perform various quantitative and qualitative procedures, including:

1. evaluation of the underlying methodologies
2. analysis of recent sales activity
3. analytical review of our fair values against current market prices and
4. comparison of the pricing services' fair value to other pricing services' fair value for the same investment.

No markets for our investments were judged to be inactive at period end. Based on these procedures, we did not adjust the prices or quotes provided by our independent pricing services, third party investment managers as of 31 December 2015 or 31 December, 2014.

We have no Level C securities.

5.6 Regulatory and legal risk

Regulatory and legal risk is the risk arising from not complying with regulatory and legal requirements. The operations of the Company are subject to legal and regulatory requirements within the jurisdictions in which it operates and the Company's compliance function is responsible for ensuring that these requirements are adhered to. During 2015, conduct risk was promoted to being a risk event in its own right.

5.7 Liquidity risk

Liquidity risk arises where cash may not be available to pay obligations when due at a reasonable cost. The Company 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 Company's approach is to manage its liquidity position so that it can reasonably survive a significant individual or market loss event (details of the Company's management of its exposure to realistic disaster scenarios are provided in Note 5.1.i). This means that the Company maintains sufficient liquid assets, or assets that can be converted into liquid assets at short notice and without any significant capital loss, 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 Company 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 2015 and 31 December 2014:

Financial liabilities – projected cash flows 31 December 2015	Within 1yr $000	1-3 years $000	3-5 years $000	>5 years $000	Total $000
Net claims outstanding	130,984	169,614	76,923	78,820	456,341
Creditors from direct insurance operations	12,624				12,624
Creditors from reinsurance operations	58,293				58,293
Other creditors	27,030				27,030
Total	**228,931**	**169,614**	**76,923**	**78,820**	**554,288**

31 December 2014	Within 1yr $000	1-3 years $000	3-5 years $000	>5 years $000	Total $000
Net claims outstanding	112,093	129,944	50,024	57,421	349,482
Creditors from direct insurance operations	5,799				5,799
Creditors from reinsurance operations	49,629				49,629
Other creditors	34,989				34,989
Total	**202,510**	**129,944**	**50,024**	**57,421**	**439,899**

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

Investments and cash – maturity 31 December 2015	<1 yr $000	1-2 yrs $000	2-3 yrs $000	3-4 yrs $000	4-5 yrs $000	5-10 yrs $000	>10 yrs $000	Total $000
Variable yield securities	19,544							19,544
Debt securities	68,769	130,790	90,579	89,337	69,378	180,947	343,081	972,881
Equity securities	70,470							70,470
Total other financial investments	**158,783**	**130,790**	**90,579**	**89,337**	**69,378**	**180,947**	**343,081**	**1,062,895**
Cash at bank	36,350							36,350
Total	**195,133**	**130,790**	**90,579**	**89,337**	**69,378**	**180,947**	**343,081**	**1,099,245**

31 December 2014	<1 yr $000	1-2 yrs $000	2-3 yrs $000	3-4 yrs $000	4-5 yrs $000	5-10 yrs $000	>10 yrs $000	Total $000
Variable yield securities	18,487							18,487
Debt securities	36,575	62,320	145,581	73,736	83,035	164,990	311,684	877,921
Total other financial investments	**55,062**	**62,320**	**145,581**	**73,736**	**83,035**	**164,990**	**311,684**	**896,408**
Cash at bank	36,588							36,588
Total	**91,650**	**62,320**	**145,581**	**73,736**	**83,035**	**164,990**	**311,684**	**932,996**

5.8 Group risk

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

i. **Contagion**
Contagion risk is the risk arising from actions of one part of the group which could adversely affect any other part of the group. The Company 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.

ii. **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. Key sources of reputation risk include reliance upon the Tokio Marine HCC brand. The Company's preference is to minimise reputation risks, but where it is not possible or beneficial to avoid them, we seek to minimise their frequency and severity by management through public relations and communication channels.

5.9 Capital management risk

The Company estimates it Economic capital requirements using an internal model (the Economic Capital Model (ECM)) which, the Directors believe, is the most appropriate tool to determine the Company's medium term capital needs. However, HCCI is currently outside of the PRA Internal Model Approval Process (IMAP) and so from 1 January 2016 will measure regulated capital requirement using the Standard Formula Solvency Capital Requirement (SF SCR). The Board has reviewed the SF SCR against the ECM and has concluded that the SF SCR is appropriate. The SF SCR is measured again the Company's Solvency 2 Available Assets to monitor its Solvency. Given the inherent volatility of the SF SCR and Solvency 2 Available Assets, the Company carries an amount in excess of the regulatory minimum. At 31 December 2015, the Solvency 2 Available Assets were 220% of the requirement.

6. Segmental information

a. Gross premiums written, gross premiums earned and gross claims incurred by class of business

	Gross premiums written		Gross premiums earned		Gross claims incurred	
	2015 $'000	2014 $'000	2015 $'000	2014 $'000	2015 $'000	2014 $'000
Direct insurance						
Accident and health	11,632	13,865	13,135	14,537	7,405	7,755
Credit, political risk and suretyship	152,281	139,090	140,180	124,824	80,937	39,146
Fire and other damage to property	265	983	478	926	(3,561)	(2,472)
Marine, aviation and transport	25,819	33,111	29,564	34,253	23,298	6,033
Miscellaneous	19,723	9,042	17,687	7,685	(703)	4,621
Third party liability	208,321	187,492	187,857	175,079	79,096	79,441
	418,041	383,583	388,901	357,304	186,472	134,524
Reinsurance acceptances	118,353	146,138	126,726	142,230	32,978	51,326
	536,394	529,721	515,627	499,534	219,450	185,850

b. Gross operating expenses, reinsurance balance and net underwriting result by class of business

	Gross operating expenses		Reinsurance balance income (expense)		Net underwriting result	
	2015 $'000	2014 $'000	2015 $'000	2014 $'000	2015 $'000	2014 $'000
Direct insurance						
Accident and health	5,437	5,961	(1,361)	862	(1,068)	1,683
Credit, political risk and suretyship	57,161	44,298	26,323	(11,555)	28,405	29,825
Fire and other damage to property	53	63	(1,102)	(92)	2,884	3,243
Marine, aviation and transport	7,870	9,257	(1,818)	2,335	(3,422)	21,298
Miscellaneous	15,039	7,646	(1,350)	(526)	2,001	(5,108)
Third party liability	71,969	64,280	(8,569)	(5,837)	28,223	25,521
	157,529	131,505	12,123	(14,813)	57,023	76,462
Reinsurance acceptances	36,162	42,233	(18,666)	(34,390)	38,920	14,281
	193,691	173,738	(6,543)	(49,203)	95,943	90,743
Investment return					20,758	20,428
Equalisation provision					(16,057)	(16,616)
Technical account					100,644	94,555

The reinsurance balance represents the aggregate of all items relating to reinsurance outwards.

c. Geographical location of underwriting operations

	Gross premiums written		Profit before taxation and exceptional items		Net assets	
	2015 $'000	Restated 2014 $'000	2015 $'000	Restated 2014 $'000	2015 $'000	Restated 2014 $'000
United Kingdom	404,265	425,054	48,637	118,386	469,095	421,020
Rest of Europe	132,129	104,667	19,158	(534)	10,279	25,220
	536,394	529,721	67,795	117,852	479,374	446,240

d. Geographical location of gross premiums written by destination

	2015 $'000	Restated 2014 $'000
United Kingdom	269,747	257,104
Rest of Europe	173,400	176,184
Rest of the World	93,247	96,433
	536,394	529,721

7. Business combination

Effective 1 April 2015, the assets, liabilities and operations of the Company's subsidiary company, Houston Casualty Company Europe, Seguros y Reaseguros S.A. (HCCE), were merged into the Company's operations and HCCE was dissolved. The transfer of the technical balances was accounted for as a portfolio transfer. No gain/loss arose at the date of merger. At the Merger date, HCCE net asset value totalled \$20.4m comprising \$278.3m assets and \$257.9m liabilities and included the following items:

Balances transferred to HCCI	1 April 2015 $'000
Other financial investments	79,553
Debtors arising out of reinsurance operations	43,421
Reinsurers share of claims outstanding	112,772
Claims outstanding	231,577
Provision for unearned premiums	5,346

Gross written premium of \$5.6m was recorded which represented the amount of unearned premium reserve at the Merger date.

8. Movement in prior years' provision for claims outstanding

Surplus/(deficit) arising on prior years' provision, net of reinsurance	2015 $'000	Restated 2014 $'000
Accident and health	270	(583)
Credit and suretyship	4,718	3,339
Fire and other damage to property	2,946	5,776
Marine, aviation and transport	3,655	974
Third party liability	15,936	7,694
	27,525	17,200

9. Net operating expenses

	2015 $'000	Restated 2014 $'000
Commission costs	120,563	110,492
Reinsurance commissions and profit participation	(23,573)	(24,856)
Change in deferred acquisition costs	(8,866)	(6,861)
Deferred acquisition costs	88,124	78,775
Administrative expenses	81,994	70,106
	170,118	148,881

Total commission written during the year in respect of direct insurance was $101,206,754 (2014: $85,137,092).

Deferred acquisition costs reconciliation	2015 $'000	Restated 2014 $'000
At 1 January	65,305	60,853
Expenses for the acquisition of insurance and investments contracts deferred during the year	96,990	85,636
Amortisation	(88,124)	(78,775)
Foreign exchange losses	223	(2,409)
At 31 December	74,394	65,305

10. Staff costs

All staff is employed by HCC Service Company Inc. (UK branch). The 2015 disclosures for staff costs below relate to underwriting and other direct staff only. The costs of staff providing central services for group entities are allocated and recharged to the Company as a management fee. These staff are 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.

	2015 $'000	Restated 2014 $'000
Wages and salaries	22,020	20,781
Social security costs	3,952	2,525
Other pension costs	1,271	1,433
	27,243	24,739

The average numbers of direct staff (excluding directors) working for the Company during the year were as follows:

	2015 Number	2014 Number
Underwriting	110	97
Claims	15	19
Administration and finance	29	30
	154	146

11. Directors emoluments

The compensation of executive directors attributable to the Company is charged as a management fee and not included in staff costs (see Note 10).

	2015 $'000	Restated 2014 $'000
Aggregate emoluments (excluding share options and awards)	4,506	4,341
Pension contributions	157	592
	4,663	4,933

Pension benefits are accruing to five directors (2014: six) under the Group's defined contribution pension scheme. Five directors received cash from vesting of restricted awards and share options, of which $8.7m was paid in 2015 (2014: $352,000), some of which had been expensed in previous years, and arose principally from the accelerated vesting at the date of the TMHD acquisition (see Note 14).

Highest paid director	2015 $'000	Restated 2014 $'000
Aggregate emoluments (excluding share options and awards)	1,316	1,143
Pension contributions	–	–
	1,316	1,143

The highest paid director received $3.7m resulting from share options and restricted awards and units which vested at the date of the TMHD acquisition.

12. Auditors' remuneration

During the year the Company and its subsidiary undertakings obtained the following services from the Company's auditors at costs as detailed below:

	2015 $'000	Restated 2014 $'000
Audit of the Company's financial statements	479	381
Audit of the Company's subsidiary undertakings' financial statements	–	13
Audit-related assurance services	77	193
Tax compliance services	30	29
Tax advisory services	142	87
	728	703

13. Investment return

	2015 $'000	Restated 2014 $'000
Investment income		
Income from other financial investments	22,295	19,347
Bank interest receivable and similar income	(1)	2
Investment property rental income	18	15
Distributions from group undertakings	32	4,315
Gains on the realisation of investments	2,180	3,574
	24,524	27,253
Investment expenses and charges		
Investment management fees and charges	(1,480)	(1,182)
Losses on the realisation of investments	(2,238)	(1,310)
	(3,718)	(2,492)
Net unrealised gains (losses) on investments		
Unrealised gains on investments	210	15,667
Unrealised losses on investments	(13,785)	–
	(13,575)	15,667
Total investment return	7,231	40,428
Allocation of investment return		
Earned investment income allocated to the general business technical account	20,758	20,428
Investment return allocated to the non-technical account	(13,527)	20,000
Total investment return	7,231	40,428

The Company recorded $13,661,760 foreign exchange loss in translation of the non-US Dollar investment portfolio (2014: $20,118,682). Additionally foreign exchange gains on revaluation of other non-US dollar monetary assets and liabilities totalled $14.0m (2014: $20.6m). See Note 14.

14. Other (charges)/income

	2015 $'000	Restated 2014 $'000
Share based compensation	8,892	1,317
Foreign exchange gains on revaluation of assets and liabilities other than investments and UPR and DAC	(13,976)	(20,564)
Foreign exchange losses/(gains) on revaluation of UPR and DAC	655	(9,781)
Amortisation of goodwill (Note 17)	1,545	1,545
Impairment expense on owner occupied land and buildings (Note 22)	583	–
Corporate oversight costs	7,961	4,067
	5,660	(23,416)

Share based compensation
As a component of the compensation plan for senior management, certain employees held share options and restricted share awards and units in HCC, the ultimate holding company. This plan closed on 27 October 2015 as a result of the acquisition of the HCC Group by TMHD resulting in accelerated vesting and cash payment of all share options and restricted share awards.

The Company applied FRS 102 in its accounting for the options and awards which requires recognition at fair value. Fair value for options was calculated using the Black Scholes option pricing model and for restricted share awards was the grant date closing market price. Fair value was expensed to the Profit and Loss Account over the vesting period of the option or award. In 2015 $8,892,234 (2014: $1,317,028) of share based compensation was expensed for all staff working for the Company participating in the Plan.

15. Tax on profit on ordinary activities

	2015 $'000	Restated 2014 $'000
Current UK corporation tax on income for the year	16,615	26,598
Tax payments in respect of prior years	1,578	331
Current tax charge for the year	18,193	26,929
Deferred tax – origination and reversal of timing differences	141	231
Tax on profit on ordinary activities	18,334	27,160

The tax assessed for the year is higher (2014: higher) than the standard rate of corporation tax in the UK. The differences are explained below:

	2015 $'000	Restated 2014 $'000
Profit on ordinary activities before tax	59,562	83,623
Tax on profit on ordinary activities at standard rate of 20.25% (2014: 21.5%)	12,061	17,979
Exceptional item which has no tax effect	1,667	8,015
Expenses not deductible for tax purposes	357	150
Amortisation of goodwill	313	291
Depreciation in excess of capital allowances	168	40
Tax payments in respect of prior years	1,578	331
Effect of foreign exchange	2,055	1,007
Other	(6)	(884)
Current tax charge for the year	18,193	26,929

The calculation of deferred tax balances at the year-end takes into account the reduction in the UK main corporation tax rate to 20% that was effective from 1 April 2015.

16. Exceptional items

	2015 $'000	Restated 2014 $'000
Impairment expense on investment in subsidiary undertakings	8,233	34,229

The Company historically valued its investment in HCCE at fair value which was equivalent to net book value. The cost of the investment totalled $82.7m and change in net book value of the investment was recognised through the revaluation reserve in the Statement of Comprehensive Income. In 2014, the net book value decreased below the original cost and this has now been recorded in the Profit and Loss account (see Note 28). The impairment of the Company's investment in HCCE is considered an exceptional item under FRS 102.

17. Goodwill

	2015 $'000	Restated 2014 $'000
Cost		
At 1 January	23,176	23,176
At 31 December	23,176	23,176
Amortisation		
At 1 January	12,361	10,816
Amortisation charge for the year	1,545	1,545
At 31 December	13,906	12,361
Net book value		
At 31 December	9,270	10,815

The goodwill arose on the purchase of a book of Professional Indemnity business from a group company in 2006.

18. Land and buildings

	2015 $'000	Restated 2014 $'000
Leasehold land and buildings	239	239

The investment property, which consists of long leasehold industrial units, was valued by the directors at 31 December 2012 on an open market basis, using reasonable judgements and contemporary evidence available. This valuation of the property has been reflected in these financial statements. See Note 3.l.

19. Investment in subsidiary undertakings

The movement in the revaluation of subsidiary undertakings is summarised below:

	2015 $'000	Restated 2014 $'000
At 1 January	44,633	75,280
Dividends received from subsidiary undertakings	(32)	(4,315)
Revaluation of subsidiary undertakings	948	1,741
Impairment expense	(8,233)	(34,229)
Effect of Merger (Note 7) and dissolution of subsidiary undertakings	(29,570)	5,178
Foreign exchange impact on translation to closing rate	(245)	978
At 31 December	7,501	44,633

The directors believe that the carrying value of the Company's investment in subsidiary undertakings is supported by the underlying net assets.

Investment in its subsidiary undertakings, as listed below, comprises its equity holdings at current net asset value, less any impairment.

Name	Principal activity	Class of shares	Effective %
HCCI Credit Services Limited	Information services provider	Ordinary	100%
Dickson Manchester & Company Limited	Dormant	Ordinary	100%
HCC Diversificación y Soluciones S.L. (incorporated in Spain)	Service provider	Ordinary	100%

All subsidiary companies are directly held and are incorporated in England and Wales unless otherwise stated above.

20. Other financial investments

	Fair value		Book cost	
	2015 $'000	2014 $'000	2015 $'000	2014 $'000
Variable yield securities and units in unit trusts	19,544	18,487	19,544	18,487
Debt securities and other fixed-income securities	972,881	877,921	924,344	884,951
Equity shares	70,470	–	71,709	–
	1,062,895	896,408	1,015,597	903,438

Debt securities and other fixed-income securities comprise listed investments.

21. Other debtors

	2015 $'000	Restated 2014 $'000
Other debtors	3,235	1,347
Deferred tax asset	73	214
Amounts owed by group companies	19,406	10,836
	22,714	12,397

There are no debtors falling due after more than one year. Amounts owed by group undertakings are short-term, unsecured, interest free and have no fixed date of repayment.

Deferred tax asset

	2015 $'000	Restated 2014 $'000
At 1 January – deferred tax (asset)/liability	(214)	(457)
Changes in accelerated capital allowances	67	(3)
Short-term timing differences	74	246
At 31 December – deferred tax (asset)/liability	(73)	(214)

The deferred tax asset consists of the following amounts:

Deferred tax asset	2015 $'000	Restated 2014 $'000
Accelerated capital allowances	(32)	(99)
Short-term timing differences	(41)	(115)
Deferred tax (asset)/liability	(73)	(214)

22. Tangible assets

	Leasehold improvements $'000	Land and Buildings $'000	Computer equipment $'000	Fixtures, fittings and office equipment $'000	Total $'000
Book cost					
At 1 January 2015	2,481	3,293	11,359	2,015	19,148
Additions	–	–	–	–	–
Valuation adjustment	–	(583)	–	–	(583)
Disposals	(1,015)	–	(11,340)	(199)	(12,554)
Foreign exchange impact of translation to closing rate	–	–	–	11	11
At 31 December 2015	**1,466**	**2,710**	**19**	**1,827**	**6,022**
Depreciation					
At 1 January 2015	2,225	–	11,068	2,003	15,296
Charge for the year	234	–	178	8	420
Disposals	(993)	–	(11,227)	(199)	(12,419)
At 31 December 2015	**1,466**	–	**19**	**1,812**	**3,297**
Net book value					
31 December 2015	–	**2,710**	–	**15**	**2,725**
31 December 2014	256	3,293	291	12	3,852

Land and buildings is occupied by the Company for its own use.

23. Called up share capital

	2015		2014	
Allotted, called up and fully paid ordinary Shares	**Number of Shares**	**$'000**	**Number of Shares**	**$'000**
Balance brought forward				
– Ordinary shares of £1 each	96,047,813	163,045	96,047,813	163,045
– Ordinary shares of $1 each	61,360,000	61,360	43,000,000	43,000
Shares issued during the year				
– Ordinary shares of $1 each	–	–	18,360,000	18,360
Balance carried forward	157,407,813	224,405	157,407,813	224,405

The £1 ordinary shares are translated to US Dollars at the rates of exchange ruling on the dates the shares were issued.

Dividends declared as payable in 2015 totalled $8,700,000 (2014: nil).

24. Equalisation provision

The effect of the equalisation provision in the Balance Sheet is to reduce shareholder's funds by $96,225,000 (2014: $80,168,000) before tax. The increase in the provision during the year had the effect of reducing the balance on the technical account for general business and the profit on ordinary activities before tax by $16,057,000 (2014: $16,616,000).

Under FRS 103, this requirement has been amended and the equalisation provision will be reversed with effect from 1 January 2016.

25. Other creditors including taxation and social security

	2015 $'000	Restated 2014 $'000
Corporation tax	4,088	11,995
Other creditors	723	125
Amounts owed to group companies	22,219	22,869
	27,030	34,989

Amounts owed to group companies are short-term, unsecured, interest free and have no fixed date of repayment.

26. Capital commitments

There were no capital commitments contracted for but not provided for at 31 December 2015 (2014: $nil).

27. Ultimate parent company and controlling party

HCCI's ultimate parent company is Tokio Marine Holdings, Inc. (TMHD). TMHD's is incorporated in and its head office is located in Tokyo, Japan. Copies of the consolidated financial statements of TMHD can be obtained from its website at http://www.tokiomarinehd.com/en/ir/library/annual_report/

28. Transition to FRS 102 and restatement of prior year balances

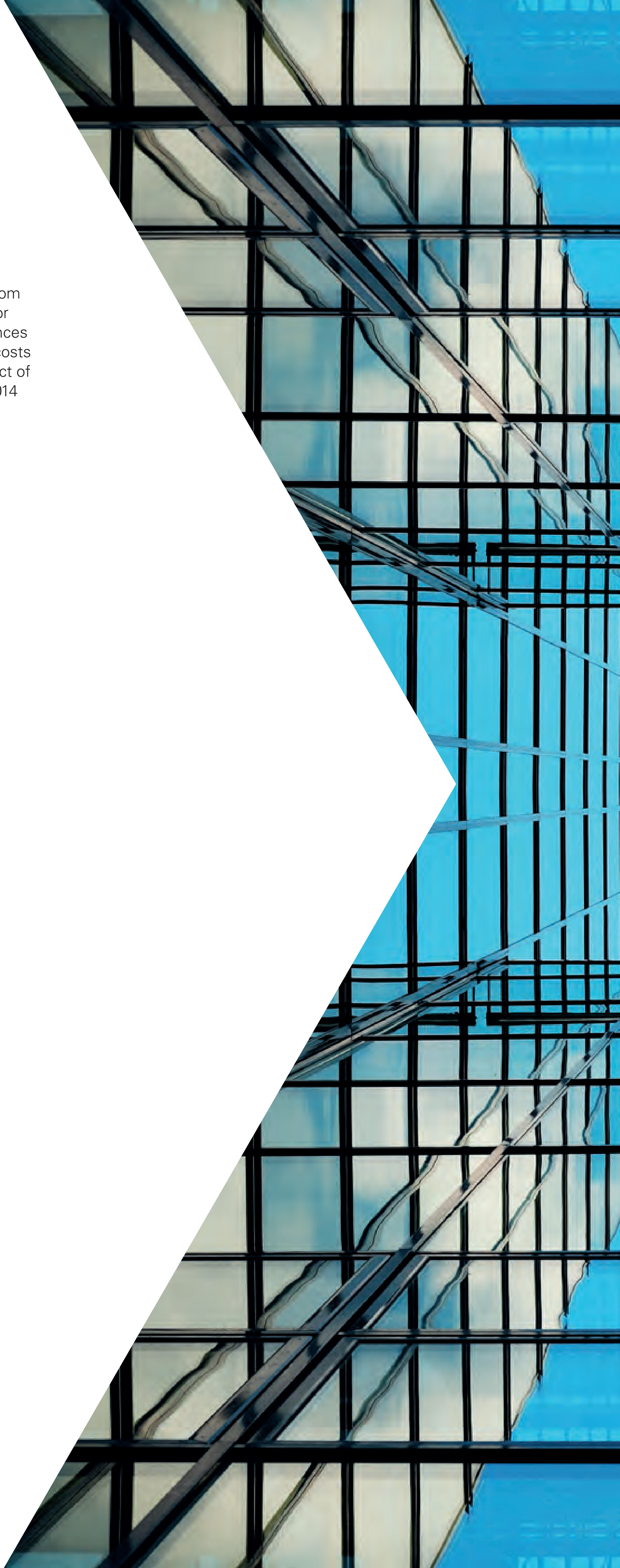
The Company adopted FRS 102 effective 1 January 2015 and restated 2014 comparatives to be consistent with FRS 102. Set out below are the changes in accounting policies which reconcile Company profit for the year ended 31 December 2014 and net assets as at 1 January 2014 and 31 December 2014 as previously reported and after adoption of FRS 102.

	Note	2015 £'000	Restated 2014 £'000
Net profit/(loss) after tax for the financial year			
UK GAAP – As previously reported		49,185	
FX average rate		1.6450	
UK GAAP – As previously reported			**80,911**
Insurance balances treated as monetary items	A		9,781
Impairment expense previously reported in revaluation reserve	B		(34,229)
UK GAAP – FRS 102			**56,463**
Comprehensive income			
UK GAAP – As previously reported		45,961	
FX average rate		1.6450	
UK GAAP – As previously reported			**75,606**
Currency translation differences due to change in reporting currency			(31,498)
Impact of Profit and Loss restatements (as noted above)			(24,448)
Impairment expense previously reported in revaluation reserve	B		34,229
UK GAAP – FRS 102			**53,889**

Net assets		1 January 2014 £'000	31 December 2014 £'000
UK GAAP – As previously reported (in £'000)		227,199	283,486
FX closing rate		1.6491	1.5535
UK GAAP – As previously reported (in $'000)		**374,668**	**440,401**
Insurance balances treated as monetary items	A	(3,942)	5,839
UK GAAP – FRS 102		**370,726**	**446,240**

A. **Insurance balances treated as monetary items**
FRS 103 requires that all assets and liabilities arising from an insurance contract are treated as monetary items for foreign currency translation purposes. Previously, balances such as unearned premiums and deferred acquisition costs were treated as non-monetary items. This had the effect of increasing total equity by $5.8m as at 31 December 2014 and increasing net profit by $9.8m for the year ended 31 December 2014.

B. **Impairment expense previously reported in revaluation reserve**
See Note 16.



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