



TOKIO MARINE  
HCC

# HCC Insurance Holdings (International) Limited

Single Group-Wide Solvency and Financial  
Condition Report

31 December 2017

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## Executive Summary

The following Single Group-Wide Solvency and Financial Condition Report ('SFCR') has been prepared to provide information to the Prudential Regulatory Authority ('PRA') about the financial and capital position of both HCC Insurance Holdings (International) Limited ('HCCIH(I)' or 'the Group'), for group reporting purposes, and HCC International Insurance Company plc ('HCCII' or 'the Company'), for solo reporting purposes. HCC International Insurance Company plc is the sole underwriting entity within the group during the reporting period and other related companies are either ancillary service company or holding companies in nature or of such size that they do not present material risks to the Group. Where there are differences between the group and solo positions these are set out separately. The report sets out the Business and Performance, System of Governance, Risk Profile, Valuation of Assets and Liabilities for Solvency Purposes and Capital Management of the group and solo entity. The PRA agreed a waiver to produce a single group SFCR for the EEA group headed by HCCIH(I).

### Business & Performance

HCCIH(I) (the Group) is a wholly owned subsidiary of Tokio Marine Holdings, Inc. ('TMHD') whose head office is located in Tokyo, Japan. Prior to the TMHD transaction on 27 October 2015, the Group's ultimate parent was HCC Insurance Holdings, Inc. whose head office is located in Houston, Texas.

The Group, and its subsidiaries, provides general insurance and related services. The principle subsidiaries are HCC International Insurance Company plc ('HCCII' or 'the Company'), an international insurance company authorized under the Financial Services Markets Act (2000) by the Prudential Regulation Authority to transact general insurance, and HCC Credit Services Limited, a data and information provider to the credit insurance market.

HCCII (the Company) is part of the Tokio Marine HCC International Group ('TMHCC International'), which includes the insurance platforms HCCII, Houston Casualty Company London Branch and Lloyd's Syndicate 4141. The TMHCC International underwriters write business on the international platforms based on prescribed rules which determine which carrier is utilised.

TMHCC International has a continuing strategic goal to build a portfolio of specialty niche products in the International insurance market place. TMHCC International underwrites and manages its products through two segments, London Market and Specialty. The overall TMHCC International strategy can be summarised as follows: i) To build and maintain a diversified and non-correlating portfolio of business that achieves a return of 10% above the risk free rate over the insurance cycle; ii) To preserve loss ratio over premium volume, growing only where we see a possibility for improved rating and conditions; iii) To preserve capital using risk mitigation as a key component in ensuring that all risks are identified and monitored.

The Company strategy can be summarised as follows: i) To strategically manage a diversified portfolio of businesses, differentiating ourselves from our competitors either in product offering, customer service or market positioning; ii) To continue to expand our marketing footprint and push broker development in the UK regional market and throughout the rest of Europe; iii) To identify opportunities to expand our current business lines where opportunities arise and meet our strategic threshold (including to look for complementary lines that will increase diversification and improve our International footprint); iv) To maintain a management, organisational and system/process structure commensurate with the size of the organisation.

The overall London Market rating environment for its lines of business (principally Property Treaty, Property Direct and Facultative, Accident and Health and Energy and Marine) has been extremely challenging in recent years as a result of excess capacity in the market leading to decreasing premium rates. These conditions have shown some improvement in late 2017 and early 2018 in response to an active 2017 catastrophe environment; however it is too early to determine if the rate increases will be substantial in regions outside of North America, which are relevant to the London Market business underwritten by the Company. The Specialty lines of business (Professional Risks, Financial Lines, Credit and Political Risk, Surety and Contingency) are also subject to the challenging rating conditions; however, they continue to grow organically due to a combination of unique distribution channels and product offering.

A summary of the profit and loss statement for the year ended 31 December 2017 for the Group and the Company is shown in the table below, indicating both have produced strong financial results for 2017 against a backdrop of high market catastrophe losses and continued challenging market rating conditions.



USD'000	HCC Insurance Holdings (International) (Group)	HCC International Insurance Company plc (Company)
Balance on the technical account for general business	63,824	63,824
Net investment income	40,016	40,016
FX gains / (losses) from revaluation of investments	28,569	28,569
FX gains / (losses) of revaluation of other monetary items	(48,633)	(48,633)
Other income / (charges)	(4,536)	(6,510)
<b>Profit on ordinary activities before tax</b>	<b>79,240</b>	<b>77,266</b>
Tax	(15,788)	(15,962)
<b>Profit on ordinary activities after tax</b>	<b>63,452</b>	<b>61,304</b>
<b>Profit attributable to:</b>		
Owners of the Company	63,461	61,304
Non-controlling interests	(9)	-
<b>Profit on ordinary activities after tax</b>	<b>63,452</b>	<b>61,304</b>

London Market and Speciality contribute almost equally to the 2017 profit. Within individual lines, Property & Property Treaty, Professional Risks and Surety are driving the 2017 profit. The bulk of the business written and the profit arising, for 2017, come from the UK.

Compared to 2016, the balance on the technical account has increased by \$9.2m (ignoring the impact of the release of the equalisation provision in 2016). This was driven by: i) benign catastrophe experience which delivered higher Property Treaty profits; ii) growth in net earned premium on London Market, principally from organic growth of Property Treaty and Marine business, the latter driven by a new team who joined Tokio Marine HCC International in mid-2016; and iii) prior accident year reserve releases offsetting higher 2017 accident year loss ratios on Credit and Financial Lines businesses (reflecting a conservative view of current difficult market conditions) as well as losses on the Travel product which was discontinued in 2017.

In response to Brexit and leveraging the Company's strong capital position, a new insurance carrier is being established through the creation of a new subsidiary of the Company, Tokio Marine Europe, S.A. ('TME'), which will carry a AA- rating and will benefit from a parental guarantee. In addition to underwriting new and renewal risks, it will also assume the existing portfolio of the European business through Part VII transfers. The risk profile of the subsidiary will comprise the Company's existing European business with some additional European business currently underwritten by other companies in the Tokio Marine Group.

## System of Governance

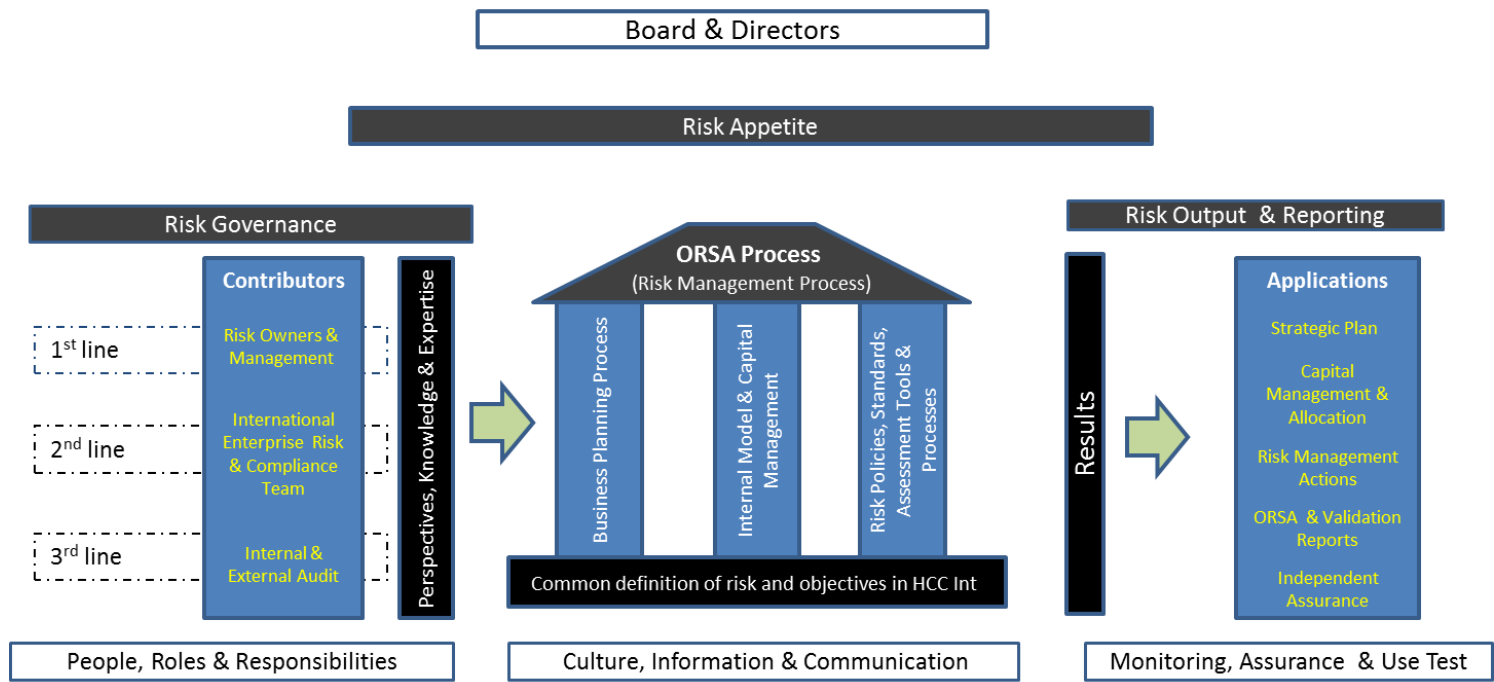
The Group is directed by the Group Board. The information contained within the remainder of this section relates specifically to the system of governance for the Company. The system of governance has not changed materially over the year.

Oversight of the Company's business and its operations starts with the Company's Board, which has overall responsibility for management of the Company. All authority in the Company flows from the Board but it delegates to sub-committees the matters set out in their respective terms of reference. Each year the overall governance structure and the terms of reference are reviewed to ensure they remain both up to date and appropriate.

The Company believes that a strong, effective and embedded risk management framework is crucial to maintaining successful business operations and delivering sustainable, long-term profitability. The Company achieves this through a strong risk culture articulated by effective ERM senior leadership and embodied by management at all levels through its governance structure and risk management processes.

The Company's approach to managing its risk, which is in line with the Company's business strategy, is to: i) Adopt an integrated approach to risk management; ii) Aim to manage risk to a desired level and minimise the adverse effects of any residual risk; iii) Coordinate the management of risk via the Risk & Capital Management Committee and other committees that report to the Board; iv) Manage risk as part of normal line management responsibilities and provide funding to address 'risk' issues as part of the normal business planning process; v) Ensure that there are appropriate policies and procedures in place; vi) Ensure that staff are appropriately trained.

The Company operates a traditional 'three line of defence' risk governance framework which means that it coordinates risk holistically ensuring that all types of risk are prioritised and analysed both in absolute and relative terms. The diagram below illustrates the various facets of our risk framework; how these interact with one another and the responsibilities of those staff in the first, second and third line of defence.

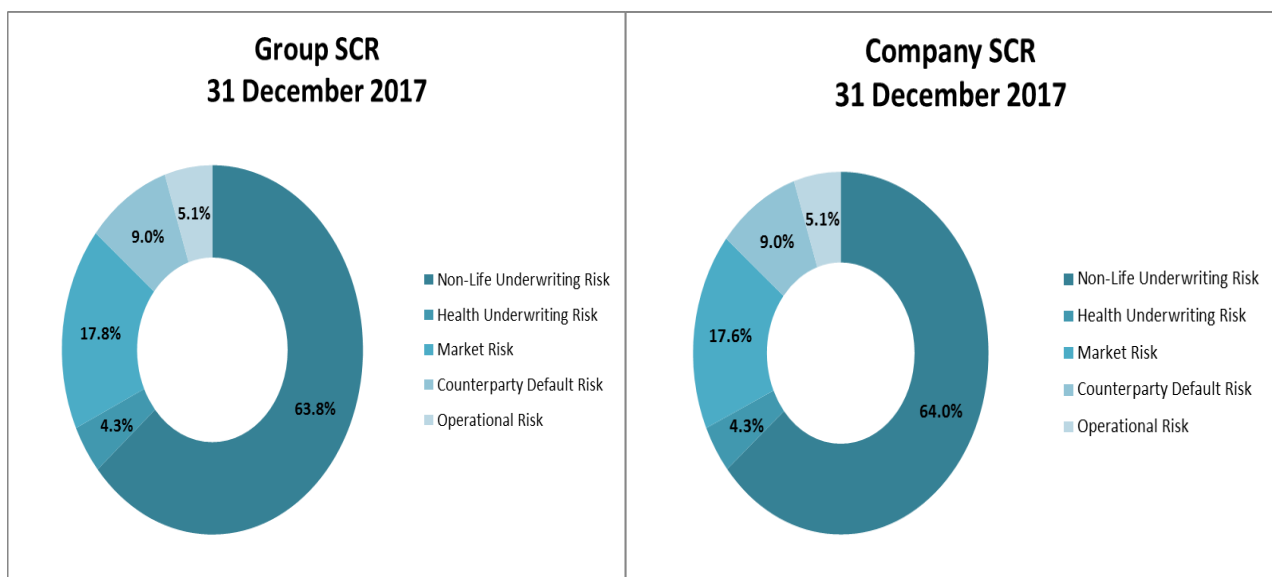


A key element of the risk management framework is the ORSA process, defined to be ‘the entirety of the processes and procedures employed to identify, assess, control and report the short and longer term risks faced by the business and to determine the assets necessary to ensure that the overall capital needs (solvency and economic) are met at all times’. The ORSA considers risk, capital performance and strategy. It provides Executive Management with adequate and accurate information enabling the taking of key decisions regarding the overall risk and capital profile of the business.

### Risk Profile

TMHCC International 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 maintains a risk register, as noted above and categorises its risks into six areas: Insurance; Strategic, Regulatory and Group; Market; Operational; Credit and Liquidity.

The overwhelming key risk for both the Group and the Company is Insurance Risk. Of the others, Market Risk is the most important. This is illustrated, via the SF SCR breakdown shown in the charts below, noting that Non-Life Underwriting Risk and Health Underwriting Risk make up Insurance Risk.



The risk profile of both the Group and the Company was stable over the year. The key forthcoming change to the risk profile is the setting up of TME in Luxembourg, in response to Brexit. Work is also underway to ensure that the current data protection

framework is enhanced sufficiently to achieve adherence to the new GDPR legislation, which comes into force in 25 May 2018. The other material undertaking for the Company is the adoption and implementation of IFRS 17. The standard is to be adopted by TMHD in Japan, which will result in an extensive project to manage the application of the requirements ahead of the go live date of 31 March 2022.

### Valuation for Solvency Purposes

The Solvency II directive (Article 75) requires that an economic, market consistent approach to the valuation of assets and liabilities is taken. The basis of preparation of the assets and liabilities for solvency purposes is aligned with the basis of preparation of the UK statutory financial statements, unless otherwise documented in the main body of the report. This applies to both the Group and Company Solvency II net asset valuation. The table below summarises the Solvency II balance sheet for the Group and the Company, both as at 31 December 2017 and 31 December 2016.

Group & Company Balance Sheets on a Solvency II Basis	Group		Company	
	As at 31 December 2017	As at 31 December 2016	As at 31 December 2017	As at 31 December 2016
	USD'000	USD'000	USD'000	USD'000
<b>Assets</b>				
Investments	1,299,681	1,118,340	1,302,742	1,126,548
Property, plant & equipment held for own use	3,086	2,836	2,916	2,684
Reinsurance recoverables from non-life	262,063	252,166	262,063	252,166
Insurance and intermediaries receivables	24,221	12,390	23,523	9,716
Reinsurance receivables	26,613	23,075	26,613	23,075
Receivables (trade, not insurance)	27,726	54,057	26,081	50,294
Cash and cash equivalents	51,721	121,385	47,859	119,754
Any other assets, not elsewhere shown	-	33	-	31
<b>Total assets</b>	<b>1,695,111</b>	<b>1,584,282</b>	<b>1,691,797</b>	<b>1,584,268</b>
<b>Liabilities</b>				
Technical provisions - non-life	823,752	787,336	823,752	787,336
Deferred tax liabilities	16,844	16,979	16,935	16,979
Insurance & intermediaries payables	11,313	15,814	11,313	12,698
Reinsurance payables	29,640	22,989	29,640	22,989
Any other liabilities, not elsewhere shown	104,737	114,674	106,613	122,320
<b>Total liabilities</b>	<b>986,286</b>	<b>957,792</b>	<b>988,253</b>	<b>962,322</b>
<b>Excess of assets over liabilities</b>	<b>708,825</b>	<b>626,490</b>	<b>703,544</b>	<b>621,946</b>

The movements in investments and technical provisions over 2017 drive the overall movements in both the Group and the Company Solvency II balance sheets. The investments increase is primarily related to the result of operating cash flow receipts in the year. The technical provisions increase mainly relates to an increase in claim provisions coming from the movements in reserve on Financial Lines and PI UK lines.

## Capital Management

The Group currently uses the standard formula to calculate its solvency capital requirement.

For 2017, the Group and the Company maintained solvency capital resources in excess of the solvency capital requirement ('SCR'). The position at 31 December 2017 is shown below:

Eligible own funds to cover capital requirements	Group (USD'000)	Company (USD'000)
Solvency II Net Assets	708,825	703,544
Standard Formula Solvency Capital Requirement ('SF SCR')	341,572	340,994
Minimum consolidated group SCR/ Minimum Capital Requirement ('MCR') <sup>1</sup>	121,364	121,364
Excess Net Assets over SF SCR	367,253	362,550
Excess Net Assets over Minimum consolidated group SCR	587,461	582,180
Solvency Ratio (i.e. SII Net Assets / SF SCR)	208%	206%
SII Net Assets as a Percentage of minimum consolidated group SCR or MCR <sup>1</sup>	584%	580%

<sup>1</sup>: Minimum consolidated group SCR applies to the Group (and acts as a floor to the group solvency capital requirement); Minimum Capital Requirement ('MCR') applies to the Company

The Group and Company remain strongly capitalised and benefit from an S&P rating of AA- and a parental guarantee. All the Solvency II Net Assets (ie the Eligible Own Funds) shown in the table above, for both the Group and the Company, fall under the "Tier 1 unrestricted" classification.

There was no non-compliance with the Minimum consolidated group SCR (for the Group), the MCR (for the Company) or significant noncompliance with the SF SCR (for both) over the last reporting period.

## Directors' Report

### Company Directors

The directors set out below have held office from 1 January 2017 to the date of this report unless otherwise stated:

S A Button  
B J Cook  
T J G Hervy  
N I Hutton-Penman  
H Ishii (non-executive)  
K L Letsinger  
N C Marsh (non-executive Chairman)  
H-D Rohlf (non-executive)  
C Scarr (non-executive)  
G R A White (appointed 21 December 2017))

### Statement of Directors' Responsibilities

We acknowledge our responsibility for preparing the SFCR in all material respects in accordance with the PRA Rules and the Solvency II Regulations.

We are satisfied that:

- a) throughout the financial year in question, HCC International Insurance Company plc ('the Company') has complied in all material respects with the requirements of the PRA Rules and the Solvency II Regulations as applicable to the insurer; and
- b) it is reasonable to believe that the Company has continued so to comply subsequently and will continue so to comply in future.

We acknowledge our responsibility for preparing the group SFCR in all material respects in accordance with the PRA Rules and the Solvency II Regulations.

### Group Directors

The directors set out below have held office from 1 January 2017 to the date of this report unless otherwise stated:

B J Cook (Chairman)  
K L Letsinger  
R D Rinicella

### Statement of Group Directors' Responsibilities

We acknowledge our responsibility for preparing the SFCR in all material respects in accordance with the PRA Rules and the Solvency II Regulations.

We are satisfied that:

- a) throughout the financial year in question, the HCC Insurance Holdings (International) Limited Group ('the Group') has complied in all material respects with the requirements of the PRA Rules and the Solvency II Regulations as applicable at the level of the group; and
- b) it is reasonable to believe that the Group has continued so to comply subsequently and will continue so to comply in future.

On behalf of the Boards,

  
K L Letsinger  
*Group Chief Financial Officer*

27 April 2018



**Report of the external independent auditors to the Directors of HCC International Insurance Company Plc ('the Company') pursuant to Rule 4.1 (2) of the External Audit Part of the PRA Rulebook applicable to Solvency II firms**

**Report on the Audit of the relevant elements of the Single Group-Wide Solvency and Financial Condition Report**

**Opinion**

We have audited the following documents prepared by the Company as at 31 December 2017:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Single Group-Wide Solvency and Financial Condition Report of the Company as at 31 December 2017, (**the Narrative Disclosures subject to audit**); and
- Group templates S.02.01.02, S.23.01.22, S.25.01.22 and S.32.01.22 (**the Group Templates subject to audit**).
- Company templates S.02.01.02, S.17.01.02, S.23.01.01, S.25.01.21 and S.28.01.01 in respect of HCC International Insurance Company plc (**the Company Templates subject to audit**)

The Narrative Disclosures subject to audit, the Group Templates subject to audit and the Company Templates subject to audit are collectively referred to as the '**relevant elements of the Single Group-Wide Solvency and Financial Condition Report**'.

We are not required to audit, nor have we audited, and as a consequence do not express an opinion on the **Other Information** which comprises:

- The 'Executive Summary', 'Business and performance', 'System of governance' and 'Risk profile' elements of the Single Group-Wide Solvency and Financial Condition Report;
- Appendix in relation to the information on Company's Swiss Branch;
- Group templates S.05.01.02 and S.05.02.01 and Company templates S.05.01.02, S.05.02.01 and S.19.01.21;
- The written acknowledgement by management of their responsibilities, including for the preparation of the Single Group-Wide Solvency and Financial Condition Report (**'Statement of Directors' Responsibilities**);

In our opinion, the information subject to audit in the relevant elements of the Single Group-Wide Solvency and Financial Condition Report of the Company as at 31 December 2017 is

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prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based, as modified by relevant supervisory modifications, and as supplemented by supervisory approvals.

### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) including ISA (UK) 800 and ISA (UK) 805, and applicable law. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the relevant elements of the Single Group-Wide Solvency and Financial Condition Report section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the Single Group-Wide Solvency and Financial Condition Report in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the Single Group-Wide Solvency and Financial Condition Report is not appropriate; or
- the directors have not disclosed in the Single Group-Wide Solvency and Financial Condition Report any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the Single Group-Wide Solvency and Financial Condition Report is authorised for issue.

### **Emphasis of Matter - Basis of Accounting**

We draw attention to the 'Valuation for solvency purposes' and 'Capital Management' sections of the Single Group-Wide Solvency and Financial Condition Report, which describe the basis of accounting. The Single Group-Wide Solvency and Financial Condition Report is prepared in compliance with the financial reporting provisions of the PRA Rules and Solvency II regulations, and therefore in accordance with a special purpose financial reporting framework. The Single Group-Wide Solvency and Financial Condition Report is required to be published, and intended users include but are not limited to the Prudential Regulation Authority. As a result, the Single Group-Wide Solvency and Financial Condition Report may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

### **Other Information**

The Directors are responsible for the Other Information.





Our opinion on the relevant elements of the Single Group-Wide Solvency and Financial Condition Report does not cover the Other Information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Single Group-Wide Solvency and Financial Condition Report, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the relevant elements of the Single Group-Wide Solvency and Financial Condition Report, or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the relevant elements of the Single Group-Wide Solvency and Financial Condition Report or a material misstatement of the Other Information. If, based on the work we have performed, we conclude that there is a material misstatement of this Other Information, we are required to report that fact. We have nothing to report in this regard.

### **Responsibilities of Directors for the Single Group-Wide Solvency and Financial Condition Report**

The Directors are responsible for the preparation of the Single Group-Wide Solvency and Financial Condition Report in accordance with the financial reporting provisions of the PRA rules and Solvency II regulations which have been modified by the modifications, and supplemented by the approvals made by the PRA under section 138A of FSMA, the PRA Rules and Solvency II regulations on which they are based, as detailed below:

- 1) Modification to group supervision allowing preparation of group Solvency and Financial Condition Report at the level of EEA holding company ('other methods'); and
- 2) Approval to submit a Single Group-Wide SFCR.

The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of a Single Group-Wide Solvency and Financial Condition Report that is free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibilities for the Audit of the relevant elements of the Single Group-Wide Solvency and Financial Condition Report**

It is our responsibility to form an independent opinion as to whether the information subject to audit in the relevant elements of the Single Group-Wide Solvency and Financial Condition Report is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based.

Our objectives are to obtain reasonable assurance about whether the relevant elements of the Single Group-Wide Solvency and Financial Condition Report are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually





or in the aggregate, they could reasonably be expected to influence the decision making or the judgement of the users taken on the basis of the Single Group-Wide Solvency and Financial Condition Report.

A further description of our responsibilities for the audit is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

This report, including the opinion, has been prepared for the Directors of the Company to comply with their obligations under External Audit rule 2.1 of the Solvency II firms Sector of the PRA Rulebook and for no other purpose. We do not, in providing this report, accept or assume responsibility for any other purpose save where expressly agreed by our prior consent in writing.

#### **Report on Other Legal and Regulatory Requirements**

In accordance with Rule 4.1 (3) of the External Audit Part of the PRA Rulebook for Solvency II firms we are also required to consider whether the Other Information is materially inconsistent with our knowledge obtained in the audit of the Company's statutory financial statements. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

*PricewaterhouseCoopers LLP*

PricewaterhouseCoopers LLP

Chartered Accountants

7 More London Riverside

27 April 2018

## Section A – Business and Performance

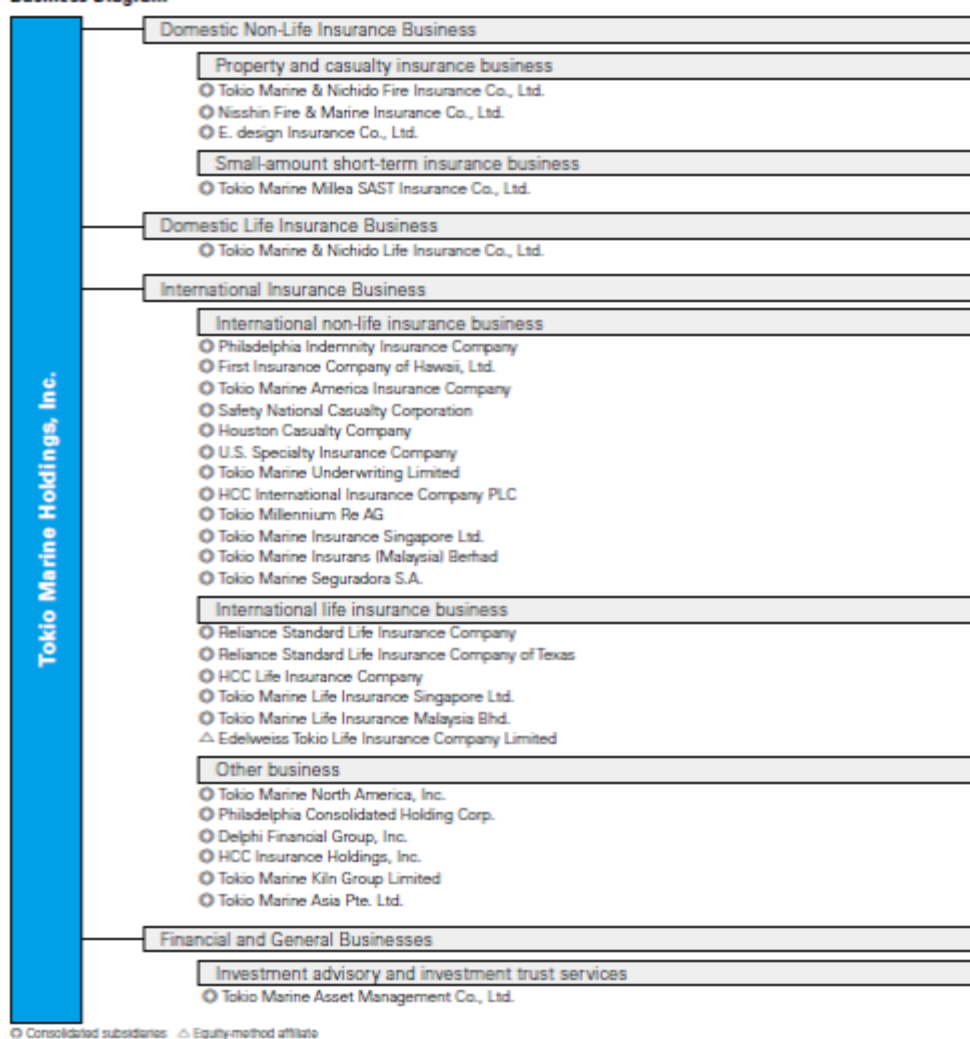
### A1 – Business

#### Group Information

HCC Insurance Holdings (International) Limited ('HCCI(HI)') is a wholly owned subsidiary of 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 2017, TMHD had total assets of ¥23.3 trillion (2016: ¥22.1 trillion) and shareholders' equity of ¥3.9 trillion (2016: ¥3.4 trillion). TMHD's major insurance companies have a financial strength rating of A+ (Stable) from Standard & Poor's Financial Services LLC. Tokio Marine Group consists of TMHD, 240 subsidiaries, and 32 affiliates that are engaged in the domestic non-life insurance business, domestic life insurance business, international insurance business, and financial and general businesses.

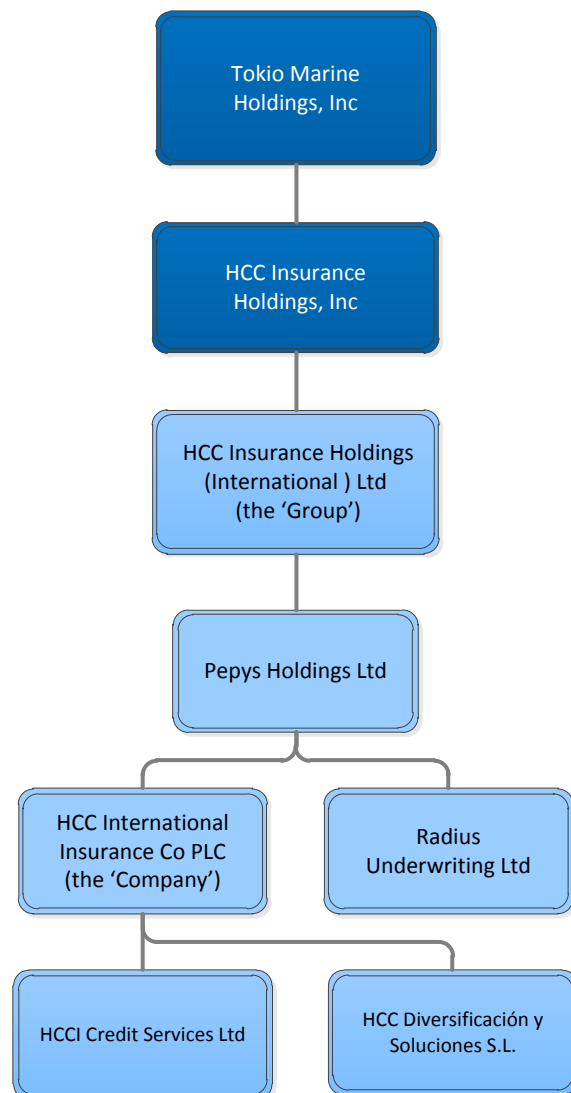
The following is the business diagram of Tokio Marine Group.

**Business Diagram**



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

The organization structure of the HCCIH(I) group ('the Group'), excluding dormant entities, is shown in the chart below. Light blue items indicate HCCIH(I) group companies, while the darker blue items show HCCIH (I) immediate and ultimate parents.



The Group, and its subsidiaries, provides general insurance and related services. The principle subsidiaries are:

- HCC International Insurance Company plc ('HCCII' or 'the Company') is an international insurance company authorized under the Financial Services Markets Act (2000) by the Prudential Regulation Authority to transact general insurance. The Company is regulated by both the Financial Conduct Authority and the Prudential Regulation Authority. 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 has branches established in Spain, Republic of Ireland, Germany, Italy, France, Switzerland and Norway; and
- HCC Credit Services Limited is a data and information provider to the credit insurance market.

The Company is part of the Tokio Marine HCC International Group ('TMHCC International'), which includes the insurance platforms HCCII, Houston Casualty Company London Branch and Lloyd's Syndicate 4141. The TMHCC International underwriters write

business on the international platforms based on prescribed rules which determine which carrier is utilised. Licensing, distribution or client choices are the principle determinants of the platform utilised. Lines underwritten include Property Treaty, Property Direct and Facultative, Accident and Health, Energy and Marine, Professional Risks, Financial Lines, Credit and Political Risk, Surety and Contingency. Financial Lines is underwritten through HCC Global Financial Products S.L. ('HCCG'), which is a wholly owned subsidiary of TMHD. The Group has continued to grow in recent years, despite difficult trading conditions, as it makes use of the Tokio Marine franchise, its European licenses, and continues to add to its international product offerings.

## Company Information

HCCIH(I) (the Group) is a private company limited by shares. HCCII (the Company) is a wholly owned subsidiary of HCCIH(I) and is a private company limited by shares.

## Auditor and Regulatory Bodies

The regulatory supervisor and external auditor for the Group and the Company are set out below:

<i>Group Supervisor (Prudential Risk)</i>	<i>Group Supervisor (Conduct Risk)</i>	<i>Group Auditors</i>
Prudential Regulatory Authority Bank of England 20 Moorgate London	Financial Conduct Authority 25 The North Colonnade Canary Wharf London	PricewaterhouseCoopers LLP 7 More London Riverside London SE1 2RT

## Group Structure

The Group's immediate parent is HCC Insurance Holdings, Inc. which is based in Houston, United States of America, and holds 100% of the share capital of the Group. The companies within the group are set out below. All companies are wholly owned.

### *HCC Insurance Holdings (International) Ltd ('HCCIH(I)' or 'the Group')*

HCC Insurance Holdings (International) Limited acts as a UK investment holding company and is a private company limited by shares. HCCIH(I) does not participate in any trading activities, but is exposed to investment risk in respect of impairment of investments held in its subsidiary undertakings. This risk is controlled by regular management review and monitoring of the trading results of the subsidiaries. HCC International Insurance Company Plc ('HCCII') is its principal trading subsidiary. Consolidated HCCIH(I) Solvency II Net Assets at 31 December 2017 total \$708.9m (2016: \$626.5m). For HCCII total Solvency II Net Assets total \$703.5m (2016: \$621.9m).

### *HCC Specialty Holdings (No1) Ltd, HCCI Group Ltd and Rattner Mackenzie Ltd*

HCC Specialty Holdings (No1) Ltd and HCCI Group Ltd were both dissolved on 3 January 2017. The companies were both dormant throughout 2016.

Rattner Mackenzie Ltd is also in the process of being dissolved. Dormant for over 16 years, this Jordanian company has no trading activity. Given various procedural and administration requirements will likely take some time and as a result will remain part of the holdings group structure for the foreseeable future.

### *Pepys Holdings Ltd*

Pepys Holdings Ltd directly owns Rattner Mackenzie Ltd and Radius Underwriting Limited. It also owns HCCII, all bar one share which is jointly held by HCCIH(I) and Pepys Holdings Ltd. Pepys Holdings Ltd does not participate in any trading or investment activities.

### *HCC International Insurance Company Plc ('HCCII' or 'the Company')*

HCCII is the entity through which the all underwriting and investment activities are transacted. Consequently the capital resources of the Group are concentrated in HCCII.

HCCII is authorized to underwrite Property Treaty, Property Direct and Facultative, Accident and Health, Energy, General Liability, Marine Hull, Financial Lines, Credit and Political Risk and Contingency. HCCII is based in the United Kingdom and has authorized branches established in Spain, Republic of Ireland, Germany, Italy, France, Switzerland and Norway. HCCII underwrites risks across its branch network and across the rest of the EEA via freedom of services authorisations and also accepts inwards reinsurance risks from United States, Canada and Australia.

HCCII'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, specialty lines of business where consistent underwriting profit can be achieved. HCCII's underwriting personnel with access to, and expertise in, the insurance and reinsurance marketplace have enabled HCCII to achieve its strategic objectives.

The overall London Market rating environment for its lines of business (principally Property Treaty, Property Direct and Facultative, Accident and Health and Energy and Marine) has been extremely challenging in recent years as a result of excess capacity in the market leading to decreasing premium rates. These conditions have shown some improvement in late 2017 and early 2018 in response to an active 2017 catastrophe environment; however it is too early to determine if the rate increases will be substantial in regions outside of North America, which are relevant to the London Market business underwritten by the Company. The Specialty lines of business (Professional Risks, Financial Lines, Credit and Political Risk, Surety and Contingency) are also subject to the challenging rating conditions; however, they continue to grow organically due to a combination of unique distribution channels and product offering.

The Group and HCCII continue 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 HCCII operates, particularly Surety and Financial Lines.

The average number of direct staff (excluding directors) working for HCCII (and the Group) during the year totalled 183 (2016: 153). The Group average is 183 (2016: 153).

#### *HCCI Credit Services Ltd*

HCCI Credit Services provides information to support the underwriting and setting of credit limits for business underwritten by HCCII. It is a regulated entity.

The directors of HCCI Credit Services Ltd oversee the operation of the risk management framework and set the risk appetite for the company. The material risks to which the company is exposed are credit risk and liquidity risk. These are managed under the overarching risk management framework of HCCII and are not considered material within that overarching framework; the analysis is described in full within the Risk Profile section of this report. The company is an ancillary services undertaking.

#### *HCC Diversificacion y Soluciones S.L.*

HCC Diversificacion y Soluciones S.L. is a service company to the Spanish branch and employs individuals to provide back office support to the Barcelona office and the regional office in Madrid. It is not a regulated entity and has no trading or investment activities. The company is an ancillary services undertaking.

#### *Radius Underwriting Limited*

Radius Underwriting Limited is a subsidiary of Pepys Holdings Ltd and is an appointed representative of HCCII to provide online distribution through Affinity Groups to distribute UK PI business underwritten on HCCII paper through affinity and other groups. The company is jointly owned by Pepys Holdings Limited (55%) and Brandex (Europe) Limited (45%). Service levels are in place for the provision of back office functions, including Compliance, Company Secretarial, Finance and IT. This business is subject to the same underwriting and other risk controls in place with the other UK Professional Indemnity business as HCCII will continue to maintain responsibility for the underwriting controls in place for business which is accessed by Radius. An appropriate governance structure has been established with a separate Board and Operations Committee to manage the day-to-day running of the company.

Radius Underwriting Limited does not change the risk profile of the Group or increase exposure to conduct risk given its operations as described above. The business being written through this arrangement is representative of the type already being written by the Professional Indemnity underwriters through HCCII.

## A2 – Financial Performance

A summary of the profit and loss statement for the years ending 31 December 2017, and 31 December 2016, for the Group and Company was as follows:

31 December 2017 USD'000	HCC Insurance Holdings (International) (Group)	HCC International Insurance Company plc (Company)
Underwriting Result (Technical Account, excluding Investment Income)	63,824	63,824
Net investment income	40,016	40,016
FX gains / (losses) from revaluation of investments	28,569	28,569
FX gains / (losses) of revaluation of other monetary items	(48,633)	(48,633)
Other income / (charges)	(4,536)	(6,510)
<b>Profit on ordinary activities before tax</b>	<b>79,240</b>	<b>77,266</b>
Tax	(15,788)	(15,962)
<b>Profit on ordinary activities after tax</b>	<b>63,452</b>	<b>61,304</b>
<b>Profit attributable to:</b>		
Owners of the Company	63,461	61,304
Non-controlling interests	(9)	-
<b>Profit on ordinary activities after tax</b>	<b>63,452</b>	<b>61,304</b>

31 December 2016 USD'000	HCC Insurance Holdings (International) (Group)	HCC International Insurance Company plc (Company)
Underwriting Result (includes Equalisation Provision release of \$96.2m no longer required and excludes Investment Income)	150,833	150,833
Net investment income	30,557	30,557
FX gains / (losses) from revaluation of investments	(25,086)	(25,086)
FX gains / (losses) of revaluation of other monetary items	30,203	30,203
Other income / (charges)	(6,563)	(9,546)
<b>Profit on ordinary activities before tax</b>	<b>179,944</b>	<b>176,961</b>
Tax	(39,425)	(38,863)
<b>Profit on ordinary activities after tax</b>	<b>140,519</b>	<b>138,098</b>

### The Group

The Group's result is not materially different than the Company and includes service fee income of HCCI Credit Services, which totals approximately \$3.4m (2016: \$3.2m).

### The Company

The Company made a net profit for the financial year of \$61.3m (2016: \$138.1m) and includes a balance on the technical account for general business of \$96.1m (2016: \$175.0m). Investment income of \$32.3m (2016: \$24.2m) has been recognised in the technical account. The technical account in 2016 included the release of the equalisation provision of \$96.2m which was no longer required under Solvency II effective from 1 January 2016.

The balance on the technical account excluding investment income (and the release of the equalisation provision in 2016) is \$63.8m (2016 \$54.6m). The \$9.2 m increase in 2017 compared to 2016 was driven by the following:

- Increase in London Market underwriting profits which are \$29.8m (2016: \$20.9m). This result reflected benign catastrophe experience which delivered higher Property Treaty profits as well as growth in net earned premium principally from organic growth of Property Treaty and Marine business, the latter driven by a new team who joined Tokio Marine HCC International in mid-2016.

- The Specialty business profits of \$34.0m (2016: \$33.9m) are consistent with 2016. Performance of the current core specialty business is within expectations. Losses on the Lifestyle Travel Medical product, which was discontinued in 2017, were to some extent mitigated by reserve releases on other discontinued lines of business.
- The loss ratio for 2017 was 4.2% higher than 2016 due to higher current accident year loss ratios on Credit and Financial Lines businesses reflecting a conservative view of current difficult market conditions. 2017 US catastrophes had no significant effect on the 2017 loss ratios. Prior accident year reserve releases totalled \$17.9m (2016: \$19.1m) reducing the loss ratio by 3.9% (2016: 4.4%).

The loss on the non-technical account reduced profit on ordinary activities before tax by \$18.9m (2016: \$2.0m increase). This is comprised of a distribution from a subsidiary of \$8.0m (2016: Nil), unrealised losses on investments of \$0.4m (2016: \$6.4m gain); \$20.0m loss from revaluation (2016: \$5.1m gain) and other charges of \$6.5m (2016: \$9.5m).

## Underwriting Performance by Line of Business

TMHCC International has a continuing strategic goal to build a portfolio of specialty niche products in the International insurance market place.

The overall TMHCC International Strategy can be summarised as follows:

- To build and maintain a diversified and non-correlating portfolio of business that achieves a return of 10% above the risk free rate over the insurance cycle.
- To preserve loss ratio over premium volume, growing only where we see a possibility for improved rating and conditions.
- To preserve capital using risk mitigation as a key component in ensuring that all risks are identified and monitored.

The Company strategy can be summarised in the following bullet points:

- To strategically manage a diversified portfolio of businesses, differentiating ourselves from our competitors either in product offering, customer service or market positioning.
- To continue to expand our marketing footprint and push broker development in the UK regional market and throughout the rest of Europe.
- To identify opportunities to expand our current business lines where opportunities arise and meet our strategic threshold. To look for complementary lines that will increase diversification and improve our International footprint.
- To maintain a management, organisational and system/process structure commensurate with the size of the organisation.

TMHCC International underwrites and manages its products through two segments, London Market and Specialty. London Market business is comprised of Property Direct and Facultative, Property Treaty, Accident and Health and Marine and Energy. Specialty is comprised of Professional Risks, Financial Lines, Credit & Political Risk, Surety and Contingency. These segments execute the Group's strategy through concentration of underwriting in selected, narrowly defined lines of business where consistent underwriting profit can be achieved.

The overall London Market rating environment for its lines of business (principally Property Treaty, Property Direct and Facultative, Accident and Health and Energy and Marine) has been extremely challenging in recent years as a result of excess capacity in the market leading to decreasing premium rates. These conditions have shown some improvement in late 2017 and early 2018 in response to an active 2017 catastrophe environment; however it is too early to determine if the rate increases will be substantial in regions outside of North America, which are relevant to the London Market business underwritten by the Company. The Specialty lines of business (Professional Risks, Financial Lines, Credit and Political Risk, Surety and Contingency) are also subject to the challenging rating conditions; however, they continue to grow organically due to a combination of unique distribution channels and product offering.

The Company continued to grow its core Specialty and London Market segments. Although the Insurance and reinsurance markets experienced substantial catastrophe losses from Hurricanes Harvey, Irma and Maria, the Company was not affected given its emphasis on European catastrophe and other world-wide exposures. This, combined with prior year reserve releases reflecting better than expected loss emergence, resulted in higher than expected profit from the London Market business.

The core lines of the Specialty segment performed well and in line or better than expectations. This good performance was dampened by the Lifestyle Travel Medical business (which the Company entered in 2015 and exited in 2017). Additionally, the Credit and Political risk business, a long standing and good performing class of business, has continued to have challenging results this year resulting from difficult market conditions. The Company's AA- S&P rating remains a significant differentiator and a key selling point in many of the markets in which the Company operates, particularly in the Surety, Credit and Financial Lines.

A summary of the Underwriting Result for the years ending 31 December 2017, and 31 December 2016, for the Group and Company was as follows (noting that to allow a better comparison the 2016 figures exclude the impact of the release of the equalisation provision):

USD'000	2017 Actuals			
	Gross Written Premium	Net Earned Premium	Net Loss Ratio %	Underwriting Result
<b>London Market</b>				
Energy & Marine	40,635	35,905	56.6%	3,530
Property & Property Treaty	55,615	42,004	2.4%	26,756
Accident & Health	9,867	9,576	46.1%	1,903
Other	(47)	(15)	n/a	(519)
<b>Total London Market</b>	<b>106,070</b>	<b>87,470</b>	<b>29.8%</b>	<b>31,670</b>
<b>Specialty</b>				
Surety	80,415	62,803	26.2%	20,363
Credit	47,722	38,322	53.4%	783
HCC Credit	51,801	48,159	62.4%	4,474
<b>Total Surety &amp; Credit</b>	<b>179,938</b>	<b>149,284</b>	<b>44.8%</b>	<b>25,620</b>
Professional Risks	103,395	94,810	37.9%	15,599
Financial Lines	123,476	97,037	58.6%	269
Other	50,229	26,715	67.0%	(9,334)
<b>Total Specialty</b>	<b>457,038</b>	<b>367,846</b>	<b>48.3%</b>	<b>32,154</b>
<b>Total</b>	<b>563,108</b>	<b>455,316</b>	<b>44.7%</b>	<b>63,824</b>

USD'000	2016 Actuals			
	Gross Written Premium	Net Earned Premium	Net Loss Ratio %	Underwriting Result
<b>London Market</b>				
Energy & Marine	35,080	22,920	38.2%	3,522
Property & Property Treaty	49,012	37,837	18.8%	17,977
Accident & Health	10,888	10,846	36.9%	3,382
Other	6	(26)	n/a	(105)
<b>Total London Market</b>	<b>94,986</b>	<b>71,577</b>	<b>27.4%</b>	<b>24,776</b>
<b>Specialty</b>				
Surety	76,176	57,097	29.1%	11,282
Credit	37,763	37,704	52.6%	1,132
HCC Credit	41,662	35,701	63.5%	3,056
<b>Total Surety &amp; Credit</b>	<b>155,601</b>	<b>130,502</b>	<b>45.3%</b>	<b>15,470</b>
Professional Risks	93,438	91,591	30.7%	22,176
Financial Lines	123,447	81,219	51.8%	3,423
Other	81,158	56,885	n/a	(11,237)
<b>Total Specialty</b>	<b>453,644</b>	<b>360,197</b>	<b>43.1%</b>	<b>29,832</b>
<b>Total</b>	<b>548,630</b>	<b>431,774</b>	<b>40.5%</b>	<b>54,608</b>

Gross premium written increased \$14.5m to \$563.1m in 2017 (2016: \$548.6m). After eliminating the effect of the weaker US\$ in 2016, underlying premium increased by \$23.8m (on average the dollar strengthened against sterling in 2017 by 4.7% but weakened against the Euro by 2.6%). The \$23.8m increase was driven by the growth in the Specialty business largely due to Credit, Professional Risks and Surety, supported by an increase in London Market business which is principally from organic growth of Property Treaty and Marine business, the latter driven by a new team who joined Tokio Marine HCC International in mid-2016.

Net earned premium written increased \$23.5m to \$455.3m in 2017 (2016: \$431.8m). This is due to growth in the gross written premiums flowing through earnings in the Specialty lines. Also, financial lines included earned premium from an acceleration of earning patterns, which was implemented in the current year.



Underwriting result increased \$9.2m to \$63.8m in 2017 (2016: \$54.6m). The main driver was Surety which increased \$9.1m to \$20.4m (2016: \$11.3m) this is driven by demand for bonds and the Company's ability to write international diversified portfolio. Also, the Company's strategy to target larger bonds continues to succeed and there are participation agreements with a number of banks.

## Branch Performance

HCCII has established European branches where a local presence is necessary to underwrite its products. The products underwritten through the branches are principally Financial Lines, Surety and Credit business which comprise approximately 20%-25% of the Company's Gross Written Premium. Infrastructure is generally provided through centralised shared services in order to maintain a consistent and centralised control structure where practical. The principal branch is located in Barcelona, Spain where, through the HCC Group's managing general agency, HCCG, Financial Lines business is written throughout the Continent through freedom of passport. The Board monitors the performance of the individual branches on a quarterly basis.

A summary of the gross written premium on the branches, for the years ending 31 December 2017, and 31 December 2016, for the Group and Company was as follows:

USD'000	2017 Actuals						
	Ireland	Switzerland	France	Spain	Germany	Italy	Norway
<b>Total London Market</b>	-	1,441	-	-	-	-	-
<b>Specialty</b>							
Surety	12,258	-	5,812	2,282	-	3,428	389
Credit	-	-	37	-	-	-	-
HCC Credit	-	4,724	-	-	-	-	-
<b>Total Surety &amp; Credit</b>	<b>12,258</b>	<b>4,724</b>	<b>5,849</b>	<b>2,282</b>	<b>-</b>	<b>3,428</b>	<b>389</b>
Professional Risks	-	(47)	-	793	-	1,659	-
Financial Lines	-	3,704	-	83,552	925	-	-
Other	-	806	-	3,055	292	-	-
<b>Total Specialty</b>	<b>12,258</b>	<b>9,187</b>	<b>5,849</b>	<b>89,682</b>	<b>1,217</b>	<b>5,087</b>	<b>389</b>
<b>Total</b>	<b>12,258</b>	<b>10,628</b>	<b>5,849</b>	<b>89,682</b>	<b>1,217</b>	<b>5,087</b>	<b>389</b>

USD'000	2016 Actuals						
	Ireland	Switzerland	France	Spain	Germany	Italy	Norway
<b>Total London Market</b>	-	828	-	-	-	-	-
<b>Specialty</b>							
Surety	9,447	-	4,704	7,448	-	1,097	-
Credit	-	-	-	-	-	-	-
HCC Credit	-	3,868	-	-	-	-	-
<b>Total Surety &amp; Credit</b>	<b>9,447</b>	<b>3,868</b>	<b>4,704</b>	<b>7,448</b>	<b>-</b>	<b>1,097</b>	<b>-</b>
Professional Risks	-	(32)	-	2,416	-	130	-
Financial Lines	-	9,924	-	81,915	693	-	-
Other	-	1,364	-	2,766	145	-	-
<b>Total Specialty</b>	<b>9,447</b>	<b>15,124</b>	<b>4,704</b>	<b>94,545</b>	<b>838</b>	<b>1,226</b>	<b>-</b>
<b>Total</b>	<b>9,447</b>	<b>15,952</b>	<b>4,704</b>	<b>94,545</b>	<b>838</b>	<b>1,226</b>	<b>-</b>

To meet the requirements of the Swiss Financial Market Supervisory Authority (FINMA), the Swiss regulator, further details of the Swiss branch are provided as an Appendix.

## Underwriting Performance by Solvency II Lines of Business

Solvency II requires sixteen different product classifications which are classified differently to how the business is managed.

The gross written premium and underwriting results of the top five Solvency II lines, for the years ending 31 December 2016, and 31 December 2017, are as follows:

USD'000	2017 Underwriting Result						
	General Liability	Credit and Suretyship	Medical Expense	Property	Marine, Aviation & Transport	Other	Total
<b>Gross Written Premium</b>	<b>200,069</b>	<b>171,280</b>	<b>21,134</b>	<b>101,194</b>	<b>11,877</b>	<b>57,554</b>	<b>563,108</b>
Net Earned Premium	156,886	139,483	22,017	63,403	14,299	59,228	455,316
Net Claims	(74,287)	(66,479)	(20,715)	5,464	(17,440)	(30,180)	(203,637)
Net Expenses	(67,134)	(60,035)	(11,182)	(18,159)	(7,545)	(23,800)	(187,855)
<b>Underwriting Result</b>	<b>15,465</b>	<b>12,969</b>	<b>(9,880)</b>	<b>50,708</b>	<b>(10,686)</b>	<b>5,248</b>	<b>63,824</b>

USD'000	2016 Underwriting Result						
	General Liability	Credit and Suretyship	Medical Expense	Property	Marine, Aviation & Transport	Other	Total
<b>Gross Written Premium</b>	<b>187,673</b>	<b>149,044</b>	<b>58,835</b>	<b>51,181</b>	<b>22,636</b>	<b>79,261</b>	<b>548,630</b>
Net Earned Premium	147,923	127,614	54,169	39,094	12,750	50,224	431,774
Net Claims	(66,559)	(47,428)	(30,938)	(3,915)	(3,722)	(22,156)	(174,718)
Net Expenses	(68,976)	(62,297)	(27,995)	(12,851)	(6,880)	(23,449)	(202,448)
<b>Underwriting Result</b>	<b>12,388</b>	<b>17,889</b>	<b>(4,764)</b>	<b>22,328</b>	<b>2,148</b>	<b>4,619</b>	<b>54,608</b>

### General Liability

This class is comprised principally of portions of Professional Risks and the Directors and Officers component of Financial Lines business. The Professional Risks gross premium written increased in the year, with growth in event contingency business having contributed to 45% of the total premium growth. The business is comprised of Professional Indemnity and Liability business where organic growth through product development, new business initiatives and increased regional presence have continued year on year. The Professional Indemnity business is high volume, low premium business underwritten through regional brokers with a focus on client service, the target clients being 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. Directors and Officers premiums remain stable year on year.

### Credit and Suretyship

This class of business is comprised principally of the Credit and Political Risk and Surety lines of business. Credit & Political Risk gross premium written is the primary driver of the increase seen in the table above. The UK whole turnover Credit business, where high service standards position the Company well with clients, has historically experienced good retention levels and these remain high. The Excess Credit and Political Risk business has maintained its market position with continued benefit from the

Company's financial rating. The 2017 premium growth was similar in each of the two main business lines.

Surety gross premium written also saw growth in the year, with the Company's position in the market and its strong S&P rating provides good opportunities to sell performance bonds and other bond products supporting large multi-national companies involved in significant infrastructure projects. The strategy to target larger bonds continues to succeed and there are participation agreements with a number of bank clients.

### Medical Expense

The medical expense line of business was relatively new to the Company and after experiencing rapid growth which produced results which did not meet the required returns, the business was exited during 2017.

The underwriting result in the table above shows the business is in a run-off.

### Property

The property line of business includes Property Treaty and Property Direct and Facultative lines of business. Whilst Property Treaty has seen growth in the period, namely on catastrophe and engineering lines, Property Direct and Facultative has been impacted by the continued soft market conditions. There were however, signs of improvement in the fourth quarter, in response to catastrophe experience.

### Marine, Aviation and Transport

The Energy market conditions have remained soft for most of 2017 but an increase in premium has been achieved following the strengthening of the Marine underwriting team in mid-2016 and there have been some indications of an improving market environment in late 2017.

### Other

Other lines of businesses comprises principally of Non-proportional Casualty and Marine business, Income protection and Miscellaneous Financial Loss.

## Underwriting Performance by Solvency II Geographic Location

The following, in conformity with Solvency II requirements whereby the 'geographic location' is defined by either underwriter or risk location dependent upon type of business, the following provides the gross written premium and underwriting results of the UK and top 5 locations by location, for the years ending 31 December 2017, and 31 December 2016:

USD'000	SII UK and Top Five Locations by GWP – as at 31 December 2017							
	United Kingdom	Spain	Ireland	Japan	France	Italy	Other	Total
<b>Gross Written Premium</b>	<b>306,731</b>	<b>91,589</b>	<b>17,468</b>	<b>10,000</b>	<b>10,537</b>	<b>10,272</b>	<b>116,511</b>	<b>563,108</b>
Net Earned Premium	243,282	75,426	14,680	13,489	5,527	9,104	93,808	455,316
Net Claims	(108,773)	(39,241)	(1,285)	(942)	(2,070)	(1,725)	(49,601)	(203,637)
Net Expenses	(100,374)	(31,120)	(6,057)	(5,565)	(2,280)	(3,756)	(38,703)	(187,855)
<b>Underwriting Result</b>	<b>34,135</b>	<b>5,065</b>	<b>7,338</b>	<b>6,982</b>	<b>1,177</b>	<b>3,623</b>	<b>5,504</b>	<b>63,824</b>

USD'000	SII UK and Top Five Locations by GWP– as at 31 December 2016							
	United Kingdom	Spain	Germany	Ireland	France	Italy	Other	Total
<b>Gross Written Premium</b>	<b>304,418</b>	<b>49,423</b>	<b>22,244</b>	<b>16,847</b>	<b>11,544</b>	<b>10,384</b>	<b>133,770</b>	<b>548,630</b>
Net Earned Premium	269,007	24,499	15,196	13,722	5,711	7,489	96,150	431,774
Net Claims	(98,363)	(5,400)	(8,430)	(2,637)	(5,668)	(2,135)	(52,085)	(174,718)
Net Expenses	(111,563)	(4,348)	(8,269)	(18,614)	(6,205)	(3,850)	(49,599)	(202,448)
<b>Underwriting Result</b>	<b>59,081</b>	<b>14,751</b>	<b>(1,503)</b>	<b>(7,529)</b>	<b>(6,162)</b>	<b>1,504</b>	<b>(5,534)</b>	<b>54,608</b>

### A3 – Investment Performance

The investment function is overseen by the Investment Committee which operates under terms of reference set by the Company's Board. The Committee is responsible for recommending the Investment Risk Appetite to the Board and preparing, in conjunction with the HCC Group's Investment Managers, the Investment Policy which is consistent with the risk appetite and regulatory requirement.

New England Asset Management was the investment managers for the US Dollar, Sterling, Euro and Swiss Franc 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 3.81 (2016: 4.01 years).

The performance of the Company's portfolio, for the years ending 31 December 2017 and 31 December 2016, is as follows.

Asset Classes	Year Ending 31 December 2017			
	Gross Investment Income \$'000	Realised Gains and Losses \$'000	Unrealised Gains and Losses \$'000	Total \$'000
Corporate Bonds	10,559	227	518	11,304
Government Bonds	7,426	68	3,830	11,324
Collective Investment Undertakings	121	-	-	121
Equity Instruments	8,802	6,953	(4,450)	11,305
Collateralised Securities	7,747	41	(356)	7,432
Short term deposits	3	-	-	3
<b>Total</b>	<b>34,658</b>	<b>7,289</b>	<b>(458)</b>	<b>41,489</b>
Foreign Exchange				28,569
Investment Expense				(1,474)
<b>Total</b>	<b>34,658</b>	<b>7,289</b>	<b>(458)</b>	<b>68,584</b>

Asset Classes	Year Ending 31 December 2016			
	Gross Investment Income \$'000	Realised Gains and Losses \$'000	Unrealised Gains and Losses \$'000	Total \$'000
Corporate Bonds	11,340	1,246	4,578	17,164
Government Bonds	3,518	131	(716)	2,933
Collective Investment Undertakings	-	-	-	-
Equity Instruments	3,022	203	5,145	8,370
Other	6,369	-	(2,585)	3,784
Short term deposits	-	-	-	-
<b>Total</b>	<b>24,249</b>	<b>1,580</b>	<b>6,422</b>	<b>32,251</b>
Foreign Exchange				(25,086)
Investment Expense				(1,692)
<b>Total</b>	<b>24,249</b>	<b>1,580</b>	<b>6,422</b>	<b>5,473</b>

The performance of the investment portfolio excluding FX from revaluation is \$40.0m (2016: \$30.6m). Foreign exchange gain from the revaluation of non USD investments totaled \$28.6m (2016: \$25.1m loss). This was offset to some extent by \$48.6m (2016: \$30.2m gain) foreign exchange losses on the revaluation of monetary items other than investments which reflect the Company's policy to match foreign currency assets and liabilities where possible.

The current year gross investment income includes \$8.0m dividend income from subsidiary investments. Additionally, the equity portfolio (which comprised of 6.8% of the Company's investment portfolio at 31 December 2016) was liquidated in Q1 2017, and reinvested the proceeds in suitable non-equity investments in line with TM Group preference. This gave rise to a realized gain of \$7.0m.

In original currency, the annualized total investment returns 3.34% (2016: 2.42%) for the US dollar portfolio, 0.90% (4.23%) for Sterling portfolio and 0.56% (2016: 2.46%) for the Euro portfolio.

A key driver of the foreign exchange gain in the year, was the result of Sterling and the Euro strengthening against the US dollar.

The US dollar portfolio outperformed the benchmark in 2017 by 115 basis points ('bps') (2016: 42 bps). The EUR portfolio outperformed the EUR benchmark by 48 bps, whilst the GBP portfolio marginally outperformed the GBP benchmark by 16 bps.

The Group investment return is the same as that for the Company so an analysis table has not been included.

#### **A4 – Performance of Other Activities**

##### **Other Material Income and Expenses**

Other charges and income incurred by the Group and Company for the year, not included within the technical account were:

Year Ending 31 December 2017		
USD'000	HCC Insurance Holdings (International) (Group)	HCC International Insurance Company plc (Company)
Corporate oversight costs	3,361	3,361
Continental Europe office closure costs	-	-
Service awards	1,990	1,990
Amortisation of goodwill	1,159	1,159
Other income	(1,974)	-
<b>Total other (income) / charges</b>	<b>4,536</b>	<b>6,510</b>

The corresponding table for 2016 is shown below.

Year Ending 31 December 2016		
USD'000	HCC Insurance Holdings (International) (Group)	HCC International Insurance Company plc (Company)
Corporate oversight costs	3,141	3,180
Continental Europe office closure costs	3,157	3,157
Service awards	1,664	1,664
Amortisation of goodwill	1,545	1,545
Other income	(2,944)	-
<b>Total other (income) / charges</b>	<b>6,563</b>	<b>9,546</b>

#### **A5 – Any Other Information**

##### **Share Capital**

No additional shares were issued in the course of 2017. In 2016, on 31 March the Company issued 8,837,000 ordinary \$1 shares to its immediate parent company at par value for a total consideration of \$8.8m.

##### **Dividends**

The Group paid dividends during the year totaling \$Nil (2016: \$Nil).

During the year, the Company paid dividends totaling \$Nil (2016: \$Nil).

## Section B – System of Governance

### B1 – General Information on the System of Governance

#### The Group's governance

HCCIH(I) (the Group) is directed by B J Cook and K L Letsinger, both of whom are also directors of HCCII. R D Rinicella, General Counsel and Secretary for HCC Insurance Holdings, Inc. – the intermediate holding company in Houston – is also a director on the Board of HCCIH(I).

Board meetings are held for the Group on an ad hoc basis to approve accounts, share issues, agree company strike-offs of subsidiary companies and any other ad hoc responsibilities.

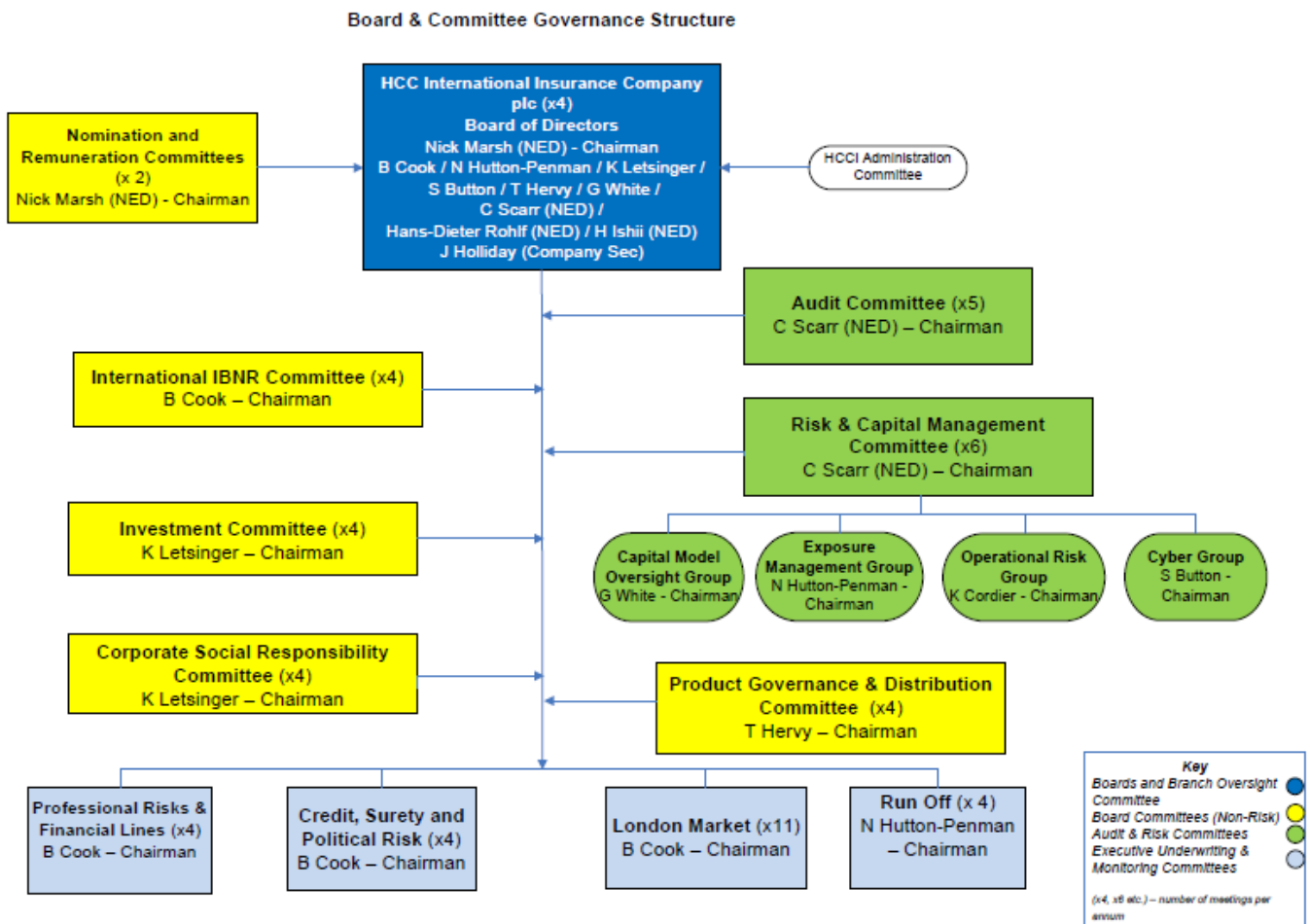
Similarly directors of subsidiaries within the Group are likewise all employees within the Group and remuneration is not received specifically for the activities required by the directorship.

The directors of HCCI Credit Services Ltd (Credit Services) oversee the operation of the risk management framework and set the risk appetite for this company. The material risks to which Credit Services on a standalone basis is exposed are credit risk and liquidity risk. These are managed under the overarching risk management framework of HCCII (the Company) and are not considered material within that overarching framework; the analysis is described in full within the Risk Profile section of this report.

The information contained within the remainder of this section relates specifically to the System of Governance for the Company.

#### Overview of the Company's Board and Committee Structure

The oversight of the Company's business and its operations are provided through its governance structure, in which the management of risk plays a significant part. Governance starts with the Company's Board, which has overall responsibility for management of the company through providing leadership of the Company within a framework of prudent and effective controls. The organisation chart below provides a high-level overview of the Company's governance structure.



### *Board of Directors*

The Board is responsible for the overall management and direction of the business and affairs of the Company and, in doing so, may exercise all the powers of the Company, subject to any relevant laws and regulations and to the Articles of Association ('Articles').

The principal functions of the Board are to:

- determine the strategic objectives for the Company and monitor performance against agreed goals;
- agree the risk strategy and appetite for the Company and oversee the effective operation of the risk management framework;
- set out the framework within which the business is managed;
- ensure that the Company has in place an appropriate corporate governance structure and undertake an annual review of the Company's policies and procedures, including but not limited to: Conduct Risk Policy;
- ensure that the Company's Conduct Risk framework is effective and delivers fair customer outcomes and to review Conduct Risk MI, providing appropriate challenge and direction; and
- define the Company's corporate and social obligations, ensuring it acts as a 'Good Company'; approve the CSR Strategy, Annual CSR Plan and CSR Budget; monitor the implementation of the CSR Strategy; CSR activities and review progress in respect of the targets set out in the Annual CSR Plan.

All authority in the Company flows from the Board but it delegates to sub-committees the matters set out in their respective terms of reference. Each year the overall governance structure and the terms of reference are reviewed to ensure they remain both up to date and appropriate.

The Board is comprised of a mix of executive directors, independent non-executive directors and shareholder representation, so as to achieve a balanced set of skills, experience, challenge and debate. Any major changes to the Company's business activities must receive Board approval prior to implementation.

### *Audit Committee*

The main purposes of the Audit Committee are to:

- receive reports from the external auditors;
- review and recommend to the Board the annual financial statements of the main trading companies;
- review the quarterly reserve recommendations per the IBNR Committee;
- consider the arrangements for Internal Audit;
- approve the annual Internal Audit Plan and monitor progress;
- receive and approve Internal Audit reports; and
- monitor progress against the Internal Audit recommendations log.

### *Corporate Social Responsibility Committee*

The Corporate Social Responsibility (CSR) Committee has been established since 2015. Its objectives are to:

- assist the Company in respect of its CSR programme and initiatives, which include the following:
  - Community – mutually beneficial engagement with the local and wider community;
  - Workplace – creation of a working environment for employees characterized by equal opportunities, training and personal development and regular and open communication;
  - Marketplace – commitment to: treat customers fairly; monitoring and confronting financial crime; and compliance with the Tokio Marine HCC Group's Code of Business Conduct and Ethics; and
  - Environment – reduction of TMHCC International's carbon footprint.
- ensure that the Company is progressing satisfactorily against those goals agreed in the CSR Plan; and
- ensure that CSR is at the forefront of TMHCC International's vision, values and practices.

### *Executive Underwriting Monitoring Committee*

The main purpose of the Executive Underwriting Monitoring Committees is to ensure that the lines of business operate within the strategic direction and annual business plans as agreed by the Board and Tokio Marine HCC Group. These committees also:

- review the line of business performance and monitor the actual against budget numbers on at least a quarterly basis;
- regularly review exposure management across relevant lines of business, specifically ensuring that the exposures are in line with those agreed;
- monitor the performance of risk mitigation controls associated with underwriting, claims and reinsurance; and
- act as a discussion group for reviewing potential business opportunities.

The committees escalate matters of concern or which require approval of the Board through the relevant Chief Underwriting Officer and by way of a written report at regular quarterly Board meetings.

### *International IBNR Committee*

The objective of this committee is to monitor the loss reserves and ensure that the overall booked reserve position for the various lines of business and each insurance carrier is adequate. This committee will:

- review the booked loss reserve position by quarter and compare to actuarial projections;
- review the catastrophe loss reserves quarterly;
- ensure the reserving methodology applied is consistent from quarter to quarter and changes are fully debated and understood; and
- ensure a full actuarial review of each line of business, whether reserved in London or Houston, is carried out in the fourth quarter of each year.

### *Investment Committee*

The primary purpose of this committee is to assist the Board by overseeing the management, understanding and quantification of investment [market] risk. The objectives of the Committee are:

- to ensure that the funds of the Company are invested in accordance with its strategy and policy;
- to review annually, the investment performance, strategy and policies;
- to ensure the Investment Strategy and policies for the TMHCC International platforms are consistent with the Tokio Marine HCC Group Investment Strategy and policies and remain appropriate;
- to ensure funds are invested in accordance with Prudent Person Principal.

### *Nominations Committee*

The main purposes of the Nominations Committee are to:

- Regularly review the structure, size and composition (including the skills, knowledge and experience) required of the Board and make recommendations to the Board where their composition requires further development. In this respect, the Committee will consider the findings from the annual exercise evaluating performance of the TMHCC International Boards;
- Review the leadership needs of the Company – both executive and non-executive – with a view to ensuring that it continues to compete effectively in the marketplace;
- Assist in identifying, nominating and re-nominating for the approval of the Board, candidates to fill Board vacancies as and when they arise; and
- Before any appointment is made by the Board, the Committee shall evaluate the skills, knowledge, experience and diversity of the Board and as a result of this prepare a description of the role and capabilities required for a particular appointment.

### *Product Governance & Distribution Committee*

The objectives of this Committee are to:

- ensure effective oversight of product development, implementation and ongoing product management during the product lifecycle;
- ensure that the Company can achieve compliance with its regulatory obligations – in particular, PRIN 2, 3, 6 and 7 – proportionately and to promote and support the delivery of the six Treating Customers Fairly ('TCF') outcomes; and
- promote the highest standards in the management and control of delegated underwriting, TPA and intermediary arrangements.

### *Remuneration Committee*

The purpose of this committee is to ensure oversight and good governance throughout the organisation in all matters relating to pay. Responsibilities include:

- to approve remuneration arrangements for all staff including those identified as 'Covered Employee'. No employee shall be involved in any decisions about their own remuneration;
- to maintain a record of Covered Employee; and
- to identify and resolve any potential conflicts of interest.

### *Risk & Capital Management Committee*

The purpose of the Risk & Capital Management Committee is to oversee our risk framework and approach to capital. This committee is authorised by the Board to oversee but cannot approve Capital Assessments. Its remit includes:

- advice to the Board on risk strategy;
- proposals to the Board in respect of overall risk appetite and tolerance, as well as the metrics to be used to monitor risk management performance;
- oversight and challenge of the design and execution of stress and scenario testing, risk management and oversight arrangements;
- ensuring risks are mitigated and managed effectively including oversight of the Risk Management Function;



- ensuring that assessments of regulatory capital are completed to the applicable standard and within regulatory timescales;
- making recommendations to the Board on the required amount of regulatory capital;
- oversight of emerging risks; and
- management of the risk groups for oversight of capital model development, exposure management controls and business continuity plans.

The Risk & Capital Management Committee in itself has four sub-groups that focus on particular aspects of risk and report to the Risk & Capital Management Committee on any recommendations and finding undertaken as a result of the execution of their responsibilities. The responsibilities of each group are as follows:

- Capital Model Oversight Group: is responsible for establishing the monitoring procedures and oversight systems for the continual validation process and the development programmes for the economic capital models ('ECM');
- Cyber Group: is responsible for reviewing underwriting risks in addition to any regulatory requirements from cyber insurance products;
- Exposure Management Group: is responsible for establishing the monitoring procedures and oversight systems for the evaluation of all property and non-property aggregate accumulations (both before and after PML) to be utilised by the regulated entities within the Group. The aggregate methodology will have reference to catastrophe models, RDS and other relevant input; and
- Operational Risk Group: is to provide governance and assessment of the risk management policies both in place and required by the business; systematically monitoring the scale of operational risks facing the business over time, and, overseeing risk mitigation performance and prioritisation related to the resolution of potential risks based upon agreed risk criteria set out by the Risk & Capital Management Committee and agreed at Board.

#### *Administration*

There is also an administrative committee established in order to act on behalf of the Board between the quarterly scheduled Board meetings in order to deal with routine regulatory submissions, banking and administration matters, including the use of the Company Seal where Board level authorisation is required i.e. granting of Powers of Attorney.

### **Remuneration Policy**

The TMHCC International's Remuneration Policy provides a framework for remuneration which is consistent with the Company's risk management and long term strategy. The key principles of the policy are to ensure that remuneration packages reflect the employees' duties and responsibilities, that they are fair and equitable, and that reward is clearly and measurably linked to individual and corporate performance.

The pay element of the reward package comprises both fixed and variable pay. The fixed pay component is determined by the role and responsibilities of the employee, their skills and experience, performance and comparable market rates. The variable pay component is designed to motivate and reward employees who generate income and/or increase shareholder value. The variable pay element is awarded in a manner which promotes sound risk management and does not induce excessive risk taking. The Remuneration Committee ensures that there is an appropriate balance between fixed and variable pay and that the fixed component represents a sufficiently high proportion of the total remuneration. In addition the performance based component reflects the risk underlying the achieved result, and a portion of the variable component is deferred for those employees who are identified as risk takers.

There is no remuneration linked to share options or shares in the Group or its ultimate parent undertaking.

There is no supplementary pension or early retirement scheme for the Executive Management or Key Function Holders over and above the standard employment package.

### ***B2 – Fit and Proper Requirements***

#### **Senior Insurance Managers Regime**

The Senior Insurance Managers Regime (SIMR) came into force on 7 March, 2016. The regime applies to those Directors that effectively run the Company and the Senior Managers who have responsibilities for key functions, as defined by the Solvency II Directive and associated guidelines. During 2018, the Company will be implementing the optimisations to the SIMR, as detailed in the PRA Policy Statement PS1/18, and also implementing the Senior Managers and Certification Regime (SMCR) from 10 December 2018. In addition to the Board and Committee structure outlined above the Company has six key functions. Under section 59 of the Financial Services and Markets Act 2000 (FSMA), authorised firms are required to ensure that individuals seeking to perform one or more of the PRA-designated Senior Manager Functions gain PRA approval prior to taking up the regulated activities.

## Key Functions

The Company has identified six key functions which are as follows:

### *Actuarial*

The Actuarial function sits across all European underwriting platforms. Its primary responsibilities, in the areas of technical provisions, underwriting policy, reinsurance and risk management are as follows:

#### Technical Provisions

- Coordinate the calculation of technical provisions;
- Ensure the appropriateness of the methodologies and underlying models used as well as the assumptions made in the calculation of technical provisions;
- Assess the sufficiency and quality of the data used in the calculation of technical provisions;
- Compare best estimates against experience;
- Inform the administrative, management or supervisory body of the reliability and adequacy of the calculation of technical provisions

#### Underwriting Policy

- Express an opinion on the overall business plan, including the following:
- Sufficiency of premiums to cover future losses.
- Considerations regarding inflation, legal risk, changes in mix of business and anti-selection.
- Consistency of business plan with risk appetite.

#### Reinsurance

- Express an opinion on the adequacy of reinsurance arrangements, including the following:
- Expected cover under stress scenarios in relation to underwriting policy.
- The adequacy of the calculation of technical provisions arising from reinsurance.

#### Risk Management

- Contribute to the effective implementation of the risk-management system, in particular with respect to the risk modelling underlying the calculation of the capital requirements and the ORSA.

### *Claims Management*

The Company views its claims settlement process as the 'shop window' to customers and a potential differentiator to competitors. Staffed by claims professionals based in London, Bridgend, Leicester, Madrid and Barcelona handling claims emanating from all lines of business with claims potentially located in any jurisdiction anywhere around the world. The claims departments are responsible for evaluating loss exposures accurately and expediently, providing salvage and subrogation potentials for the organisation as well as providing a prompt equitable and consistent service to policyholders, agents and claimants.

### *Compliance*

The overarching purpose of this function is to enable the Company to meet and exceed the standards required by its regulators. Accountabilities include advising the Board on compliance with PRA/FCA, Lloyd's and international regulatory requirements and ensuring staff awareness of regulatory matters and best practice guidelines for business compliance topics e.g. licensing, sanctions, anti-money laundering, competition and treating customers fairly.

### *Internal Audit*

The Internal Audit function is primarily responsible for evaluating the adequacy and effectiveness of the internal control system and other elements of governance. This function is independent and free to express its opinions and disclose findings to the Board, Tokio Marine HCC Group and reports directly to the UK Internal Audit Committee and into the Tokio Marine HCC Group Audit Committee on a regular basis.

### *Risk Management*

The risk management function assists in the effective operation of our business units and maintains an entity-wide view of the Company and the entire TMHCC International risk profile. For the Board, committees and management it also monitors and provides focused reporting on risk exposures and advises on risk.

### *Underwriting via Network of Branches*

Since 2006 the Company has operated a network of branch offices for lines of business underwritten by the Specialty Division. In more recent times there has been a measured strategic growth with an expansion specifically into Europe with the establishment of new overseas branch offices. With the exception of the Company's Spanish Branch, offices in continental Europe are small underwriting operations where the Company's physical presence in the country is minimal. Notwithstanding, the Board recognises that this expansion to our business carries additional operational risk. Consequently, the governance structure and oversight controls have been deemed key within the Company.

### **Fit and Proper Compliance**

The Company's Fit and Proper Policy provides a framework for assessing the fitness and propriety of Directors, Senior Managers and individuals performing a key function as defined under the Solvency II regime. The key principles of the policy are to ensure that all individuals have the personal characteristics, possesses the level of competence, knowledge and experience, including ongoing training, to enable the individual to perform their responsibilities effectively which ultimately enables sound and prudent management of the Company.

The control framework for assessing the fitness and the propriety of individuals who effectively run the Company or have other key functions starts at recruitment and continues throughout employment with performance reviews, development plans and periodic reassessments which include self-certification and independent screening by a third party provider.

The assessment for the pre-appointment stage is carried out by the Human Resource department and the person's proposed manager in the Company. Where the appointment is to a Board position, the proposed appointee is also interviewed by one or more non-executive directors. The assessment will take account of the qualifications, knowledge and experience of the individual.

The ongoing assessments of the suitability are carried out through the annual appraisal process which is the responsibility of line managers but is also monitored by the Human Resource department and reported as part of our key risk metrics to oversight committees and Board. A programme of training is in place for individuals' to either enhance or maintain level of knowledge as appropriate. Training is monitored by the Compliance department to ensure the annual programme covers all legal and regulatory topics relevant to the individual's area of responsibility. The Company Secretary coordinates the general training needs of the Board members and these may include general governance issues or technical matters.

### ***B3 – Risk Management System including the Own Risk and Solvency Assessment***

#### **Risk Management Strategy and Objectives**

The Company believes that a strong, effective and embedded risk management framework is crucial to maintaining successful business operations and delivering sustainable, long-term profitability. The Company achieves this through a strong risk culture articulated by effective ERM senior leadership and embodied by management at all levels through its governance structure and risk management processes.

The following risk management principles are high level guidelines which have been derived from experience, best practice and corporate governance guidelines used within the insurance industry and these specific principles have been adopted by the directors of the Company.

1. **Systematic and structured risk management**  
The control processes should include recognised systematic activities, where practicable, that ensure results are reliable, robust and comparable, thereby allowing management to adopt them with confidence. These processes should reflect best practice and be supported by the appropriate tools and techniques.
2. **Evidenced-based risk management**  
The inputs to the process should be based on historical data (where available), experience, subject knowledge, expert judgement and future projections. To this end lessons-learned workshops should be conducted at the end of projects or newly completed first time activities with information being stored for similar future events.
3. **Human factors**  
Human behaviour such as bias, motivation, 'rule of thumb', unwillingness to accept risk or change will all influence the effectiveness of control practices. Management should take account of these behaviours during the design and implementation stages. Additionally, consideration should be given to problems of communication due to our organisational structure and geographical dispersion.
4. **Adding benefit and value**  
The optimisation of risk management practices and risk response planning should contribute to the demonstrable achievement of business objectives and provide overall organisational benefits, such as efficiency in operations, financial

performance, accurate reporting, regulatory compliance and good reputation. To add value the control environment should underpin our corporate governance structure, provide assurance to Group and reflect legislative requirements.

The Company's strategic risk objectives are:

- To build and maintain a diversified and non-correlating portfolio of business that achieves a return of 10% above risk free rate over the insurance cycle.
- To maintain a focus on preserving loss ratio before premium volume, will only plan to grow where we see a possibility for improved rating and conditions and target returns are met.
- To preserve capital using risk mitigation as a key component in ensuring that all risks are identified and monitored
- We aim for a minimum threshold for the creditworthiness rating of an A rating (for S&P, Moody's and Fitch).
- Throughout all of our dealings, we will ensure that the reputation and integrity of the company remains intact so that we are seen as the premier specialty insurer.
- Staff retention is of paramount importance to the Company; we set our pay structure in line with market rates and provide a good benefits package. In addition, appraisals and training are focused on improving and developing our people.

The directors believe that the benefits of good risk management (and the downside of bad risk management) will be felt by our staff, management, shareholders and customers alike. Whilst the overall responsibility for effective governance and risk management lies with the Board, the daily management of risk is delegated to senior management as the diversity of risks faced by the business apply at all levels of our organisation and to all activities.

The Company's strategy for managing its risk is to:

- Adopt an integrated approach to risk management through the processes and structures detailed in the Risk Management Policy.
- Accept that whilst the business operation cannot be risk free, we will aim to manage risk to a desired level and minimise the adverse effects of any residual risk.
- Coordinate the management of risk via the Risk & Capital Management Committee and other committees that report to the Board.
- Manage risk as part of normal line management responsibilities and provide funding to address 'risk' issues as part of the normal business planning process.
- Ensure that there are appropriate policies and procedures in place that are communicated to and followed by managers and staff to minimise risk.
- Ensure that staff are appropriately trained.

## **Risk Management and Control**

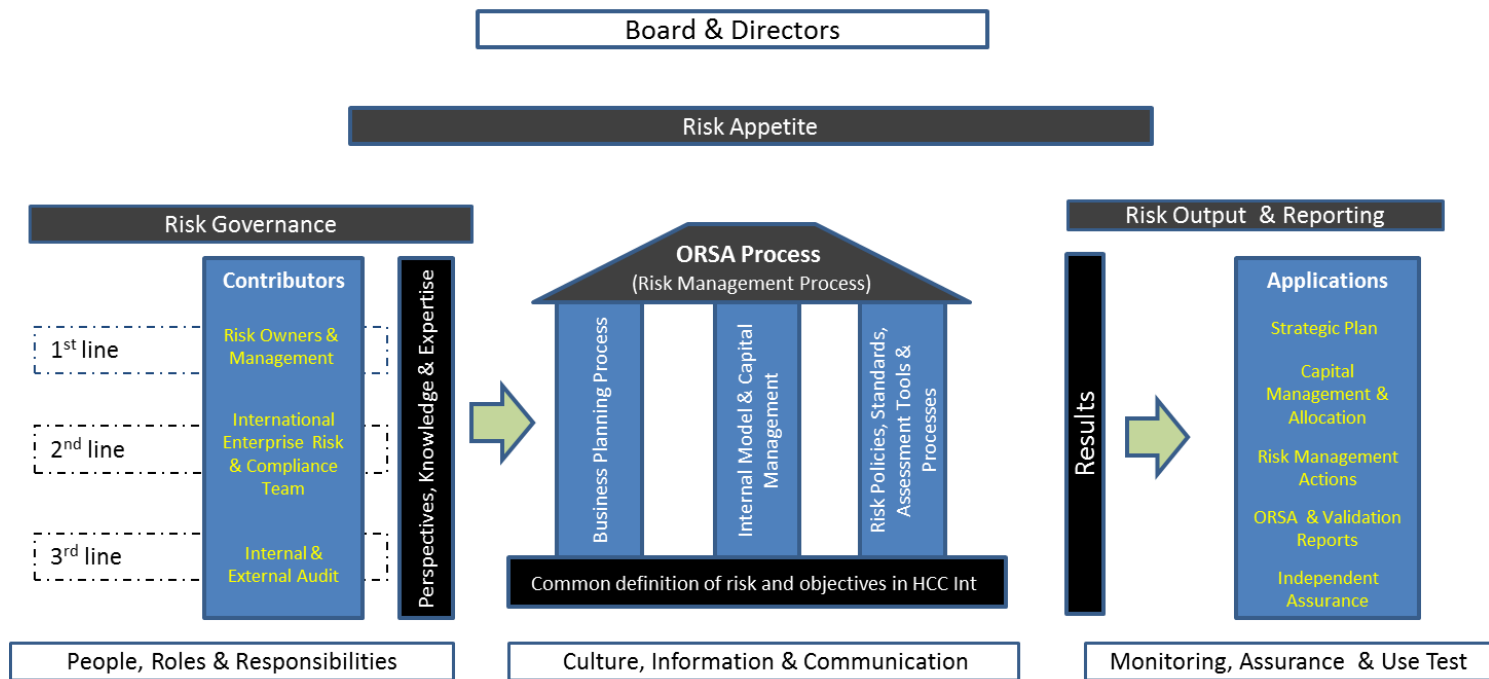
The Company operates a 'three line of defence' risk governance framework which means that we coordinate risk holistically ensuring that all types of risk are prioritised and analysed both in absolute and relative terms.

The first line of defence is the responsibility of senior management, the risk takers in the business. This involves day-to-day risk management, in accordance with risk policies, appetite and internal controls at the operational level.

The second line of defence concerns those responsible for risk oversight and risk guidance. As well as monitoring reports, they are responsible for risk policies and risk processes and control design.

The third line of defence is independent assurance to the board and senior management of the effectiveness of risk management processes.

The diagram below illustrates the various facets of our risk framework; how these interact with one another and the responsibilities of those staff in the first, second and third line of defence.



The Risk Management function assists in the effective operation of our business units and maintains an entity-wide view of each entity and the Group's risk profile. For the Board, committees and management it also monitors and provides focused reporting on risk exposures and advises on risk.

#### *Risk Identification*

The Company's approach to risk identification uses various methods of self-assessment specifically capitalising on our internal expertise to identify and quantify risks with departmental results being consolidated and standardised as necessary by the Risk and Capital Management Committee.

Senior Managers know their business objectives and are best placed to be able to highlight any new risks that may be developing over time or changes in existing risk levels. It is part of their overall responsibility to ensure such situations are reported upwards either through the Enterprise Risk team or directly to the RCMC.

#### *Risk Register*

The Company has a risk register which ensures all identified risks are described in a consistent and structured format to facilitate the assessment process. The register is divided into high level risk categories which assist with transparency and clarity when analysing risks at a company level rather than departmental. The grouping of risks helps the Enterprise Risk team to aggregate and map similar kinds of risk across departments, document management responsibilities both for the ownership of risk and the mitigation activities to control said risk.

The risk register is reviewed in its entirety with relevant risk and control owners, by the Enterprise Risk team on a biannual basis.

#### *Risk Policies*

The Company has defined a risk policy for each risk group which impacts our operating environment and establishes the controls, procedures, limits and escalation to ensure that the risks are managed in line with Risk Appetite. The policies cover Insurance Risk, Operational Risk, Group Risk, Internal Financial Risk, Liquidity Risk, Credit Risk and Market Risk.

The policies are reviewed annually alongside the group strategy and planning process thereby confirming that the risk appetite and profile remains appropriate to deliver the company's objectives in light of both internal and external drivers or constraints.

#### *Risk Appetite, Tolerances and Limits*

Risk appetite plays an important part in supporting risk assessment, monitoring and control activities as it establishes a set of benchmarks from which transaction specific tolerance levels can be set and monitored for a particular risk.

The Company accepts the parent's risk appetite with regards to Strategic and Insurance risks but on occasion may reduce the specific appetite for a particular line of business as a prudent move against negative market conditions and influences. This form of

limitation would be managed via amended business plans, reduction in underwriting authorities and regularly monitored via the Executive Committee.

The Risk and Capital Management Committee enforces the Board policies by ensuring that measurable limits or thresholds are allocated and assist the organisation as a whole to implement control procedures and appropriate monitoring activities as well as providing an escalation route to the Board if required.

- A limit reflects the absolute maximum level of exposure that is acceptable for a particular risk (a level of exposure that should not normally be exceeded).
- In contrast a threshold represents a level of exposure which, with appropriate approvals, can be exceeded, but which, when exceeded, will trigger some form of response (e.g. additional expenditure of risk control, reporting the situation to senior management, etc.).

Our Strategic Risk metrics are set with thresholds. Strategic Risk Metrics are prepared and reported to the Risk and Capital Management Committee and Board of Directors on a quarterly basis.

## **Risk Monitoring and Review**

The Company operates in a dynamic environment which brings constant change. To provide an effective risk management framework a continual monitoring and review structure is required to ensure that risks are effectively identified and assessed and that appropriate controls and responses are in place.

The internal reporting requirements and timetables for month-end and quarterly results are mapped to the risk governance structure in that monitoring the business efficiently is paramount to managing the most significant risks. Other regular soft management information is also used as a risk monitoring tool, such as monthly reports to the Executive Committee from HR, IT and Compliance.

The Enterprise Risk team maintains the risk management framework which includes monthly data accuracy reporting and assessments of operational near misses and losses. Quarterly reviews of the live risk register and emerging risk register are also performed with relevant risk and control owners. Stress testing, including reverse stress tests and scenario analysis is performed periodically to assess the robustness of the risk and capital management framework and solvency requirements with results reviewed and approved by the Risk and Capital Management Committee and Board of Directors respectively. The detailed results are also included in the annual ORSA Report.

In addition, regular audits of policy, procedures and compliance standards are carried out by the internal audit function and on occasion specific subject focused compliance reviews are conducted by the compliance team. This type of monitoring not only manages risks but is more attuned to identifying further opportunities for improvements or increasing best practice thresholds.

The monitoring process must provide assurance that there are appropriate controls in place covering all the company's activities and that the procedures are understood and followed. Consequently, management information, in varying degrees of detail, is reviewed by Divisional Managers, Business Line Managers, Enterprise Risk, Executive Management and ultimately the Board of Directors. Such reviews provide the appropriate escalation of issues to the next level or potentially direct routed to the Directors if deemed appropriate.

## **Stress and Scenario Testing**

As part of the overall process of risk control and in consideration of business strategy and capital setting, various risks are considered by the business. These risks broadly fall into three areas:

1. Risk of ruin, as viewed via reverse stress tests that test the risk of ruin
2. Risk of multiple events on the business model and strategy via compound stress tests that test the risk of multiple events on the business model and strategy
3. Emerging risks that are potential risks to the business model and strategy.

The work completed in this area is key to ensuring the full range and impact of risks, both current and potential, is understood and represented in the capital model and risk register.

The Company makes use of stress and scenario testing for both the capital and liquidity implications of certain risks under the internal model.

- Internal Model Calibration: the results of stress and scenario testing are key calibration inputs for Catastrophe Risk and Operational Risk. A representative set of scenarios are designed and the results are used as calibration points for the model.
- Internal Model Validation: stress and scenario testing is used to independently validate the internal model.

- Business Plan Review: the Company stress tests the forecasts to understand various scenarios on both profitability and the future capital position.
- Reverse stress testing: the Company performs annual reverse stress testing exercises to identify and assess events and circumstances that would cause the Company's business model to become unviable.

## **Solvency Capital Management**

The Company calculates its regulatory capital requirements using the standard formula. With oversight by the Actuarial team, the SF SCR is the responsibility of the Finance team to calculate the SF SCR at mid-year, as an input to the planning process during the fourth quarter and year-end. These results are reported into the Capital Management Oversight Committee and evaluated alongside the Company's internal model. Additionally, the solvency results are reported quarterly to the Board by the Chief Financial Officer.

Since the internal model provides a more tailored view of the Company's risk profile compared to the standard formula, the internal model output is used to monitor the Company's view of risk. However, there are no risk categories in our risk register where the risk is not identified in the Standard Formula.

## **Own Risk and Solvency Assessment ('ORSA')**

The Company has adopted a working definition of the ORSA to be 'the entirety of the processes and procedures employed to identify, assess, control and report the short and longer term risks faced by the business and to determine the assets necessary to ensure that the overall capital needs (solvency and economic) are met at all times'.

The ORSA considers risk, capital performance and strategy. It relies on the contribution of existing business processes and the monitoring tools of the risk management framework to provide Executive Management with adequate and accurate information enabling the taking of key decisions regarding the overall risk and capital profile of the business.

Specifically, risk registers are maintained and updated quarterly with input from designated risk and control owners. This provides the executive management team and the Board with a view of the risk profile on a regular basis, affording early opportunities to take management action if the current profile is diverging from the business strategy.

This information, along with other outputs of the risk management framework, e.g. risk appetite metrics, are included in a quarterly ORSA update report. This report also includes financial information, which is also considered in the context of the stated business strategy.

The ORSA is an overarching process, the underlying elements of which are fully embedded within the organisation. Consequently the ORSA has many stakeholders across the business and the table below highlights the responsibilities with regards to the ORSA for each function.

Stakeholder	Selected Responsibilities
Board	<ul style="list-style-type: none"> <li>Review and approve the ORSA Policy</li> <li>Review and approve the ORSA report on an annual basis which constitutes the formal ORSA sign-off</li> <li>Setting the overall business strategy and direction</li> <li>Setting risk appetite for the business</li> </ul>
Risk and Capital Management Committee	The TMHCC International Boards delegate risk management oversight and monitoring activities to this committee. The committee is the primary forum for challenging both the ORSA content and process, in order to recommend approval of the ORSA Policy and ORSA Report to the Boards. Quarterly ORSA reports are also reviewed by the committee.
Executive	<ul style="list-style-type: none"> <li>Engendering a positive risk culture</li> <li>Ensure appropriate governance, committee structure and escalation procedures such that risks can be monitored and managed</li> <li>Agree future plans for the lines of business based on current strategy and outputs from ORSA processes</li> <li>Engage on stress tests, reverse stress tests and emerging risks</li> </ul>
Enterprise Risk Function	<ul style="list-style-type: none"> <li>Producing the ORSA Report and collating the activities to sign-off</li> <li>Producing the quarterly ORSA reports</li> <li>Setting risk policies consistent with risk appetite</li> <li>Translating risk appetite into more granular tolerance and risk limits</li> <li>Working with business owners to develop appropriate risk reporting</li> <li>Ensuring consistency between risk identification, measurement and reporting</li> <li>Managing scenario testing and reverse stress testing framework</li> <li>Measuring and monitoring the risk culture within the business</li> <li>Ensuring the documentation of all the underlying processes which support the ORSA</li> </ul>
Actuarial Function	<ul style="list-style-type: none"> <li>Developing tools to ensure appropriate risk measurement and monitoring including where necessary 'lite models' such as replicating portfolios and curve fitting</li> <li>Carrying out stress and scenario analysis</li> <li>Carry out financial projections to better understand the risk drivers during the business planning horizon</li> <li>Translating risk appetite into more granular tolerance and risk limits</li> <li>Preparation and monitoring of risk metrics</li> <li>Developing, parameterising and running the Economic Capital Model ('ECM')</li> <li>Comparisons of Standard Formula Solvency Capital Requirement to the internally generated ECM</li> </ul>
Finance Function	<ul style="list-style-type: none"> <li>Prepare annual budgets and monitor against actual performance</li> <li>Calculate the capital held and monitor solvency</li> <li>Implement the capital strategy</li> <li>Develop and maintain the capital contingency plan</li> </ul>
External Consultant / Internal Audit	<ul style="list-style-type: none"> <li>Provide benchmarking and independent review</li> <li>Ensure that there is an appropriate control framework in place</li> <li>Provide assurance regarding the underlying processes</li> </ul>

## ORSA Report

The ORSA Report is used to summarise the outputs of the risk management and capital assessment processes. This report includes both the quantitative and the qualitative outputs of the processes and links these to the Company's business performance, to assist the Board and senior management in making strategic business decisions.

The team prepares an ORSA Report annually which is reviewed, challenged and signed off by the Board. In addition, an ORSA Lite maybe produced in cases where an event occurs that results in a material change to the Company's risk profile. The annual ORSA Report is made available to key stakeholders and the regulators and sections are also included within this report, where considered appropriate.

As noted previously, on a quarterly basis, entity-specific ORSA reports are produced, which summarise the key metrics from the annual report and provide commentary on the results from a risk perspective.



## ***B4 – Internal Control System***

The Internal Control System is designed to provide reasonable assurance that the Company's financial reporting is reliable, is compliant with applicable laws and regulations and its operations are effectively controlled. The Board is ultimately responsible for overseeing and maintaining the adequacy and effectiveness of the internal control systems and delegates control and oversight to the Audit Committee and key functions, including Internal Audit and Compliance.

### **Internal Audit assurance**

The control environment includes policies, procedures and operational systems and processes in place. The internal audit annual plan provides assurance over the internal control environment. This plan is approved by the Audit Committee on an annual basis and the findings are presented to the Audit Committee and management through internal audit reports which include an overall assurance rating.

In addition to our risk-based internal audit program, the internal audit team conducts internal controls tests on behalf of management. A total of 223 controls across 12 key cycles were tested for 2017. The testing was divided into two phases during the year. The overall results of the 2017 controls testing were positive, with 4 failures identified which were primarily medium level IT control deficiencies and two have since been closed.

### **Compliance Function**

The Compliance function identifies, monitors and reports the compliance risk exposure for the Company. The key responsibilities of the Compliance function are to:

- identify and evaluate legal and regulatory risks covering TMHCC International's current and proposed business activities;
- advise and train staff on the applicable laws and regulations, ensuring that they are apprised of all developments in these areas;
- produce documented guidelines covering compliance with these laws and regulations and assess adherence to these internal policies and procedures through the undertaking of regular compliance monitoring assessments;
- act as an adviser in compliance matters within the organisation;
- investigate and follow-up potential violations of the laws and regulations; and
- record any incident that must be reported and ensure that each legal entity fulfills its obligation as regards notification to regulators or other relevant third parties.

Compliance policies and procedures are maintained on the TMHCC International policy & procedure portal which is accessible to all employees via the Company intranet.

The Compliance Policy defines responsibilities, competencies and reporting duties of the Compliance function: it is reviewed on an annual basis and there were no significant changes to the policy during this reporting period.

The Compliance Plan sets out the planned activities of the Compliance function over the forthcoming period taking into account the Company's exposure to compliance risk in all areas of activity.

The Head of International Compliance reports to the Head of Prudential Regulation & Governance who has a direct reporting line into the Chief Operating Officer who is a member of the Board.

## ***B5 – Internal Audit Function***

The Internal Audit function is primarily responsible for evaluating the adequacy and effectiveness of the internal control system and other elements of governance. This function is independent and free to express its opinions and disclose findings to the Board, Tokio Marine HCC Group and reports directly to the UK Internal Audit Committee and into the Tokio Marine HCC Group Audit Committee on a regular basis.

Within the context of the control framework, auditing is an independent risk assessment function established within the organisation to evaluate, test and report on the adequacy and effectiveness of the management's systems of internal control, proving the third line of defence. The purpose of the evaluation and tests is to:

- assist the Audit Committee in executing their oversight responsibilities;
- provides an independent assessment of the branch's system of internal control, through reviewing how effectively key risks are being managed; and
- assists management in its responsibilities by making recommendations for improvement.

The Head of International Audit is responsible for establishing, implementing and maintaining an effective and efficient audit programme, taking into account the Company's system of governance and risk management processes.

## **Audit Charter**

As required by the Institute of Internal Auditors, the internal audit department has in place an Audit Charter which is approved by the Tokio Marine HCC Group Audit Committee in Houston. This charter sets out the purpose, mission and responsibility for the internal audit activity based on the power and authorities handed to it by the Tokio Marine HCC Group Audit Committee. This ensures that the internal audit department has access to all offices, documents and staff it requires to conduct its internal audit work without any interference or obstruction.

## **Audit Independence**

For the international operations, the Head of International Internal Audit, David Charlton, reports functionally to the Tokio Marine HCC Corporate Vice President of Internal Audit & Controls, Dawn Miller, who is based in the Houston head office, and administratively to the TMHCC International Head of Prudential Regulation & Governance, Karen Cordier, who is based in the London office. The reporting line into Karen Cordier allows internal audit to be kept up to date with changes and developments within the international operations. The Head of International Internal Audit also attends the UK Audit Committee meetings on at least a quarterly basis to report audit results and findings. There is also direct communication between the Chairman of the UK Audit Committees and the Head of International Internal Audit during the course of the year.

The work of the internal audit department is subject to review each year by the external auditors PwC, as part of their statutory year-end audit work. Furthermore, internal auditors that work in the department do not have direct responsibility over, or responsibility for, any of the activities being reviewed. Any new employee of the audit department that has previously worked in another area of the organisation will be prohibited from reviewing the activities that they were once responsible for, for a minimum of one year.

During 2017, Internal Audit was itself subject to a full audit undertaken by an independent third party.

### ***B6 – Actuarial Function***

The Actuarial function supports all of the underwriting platforms within TMHCC International. Its primary responsibility is the coordination of the calculation of the technical provisions, ensuring that methodologies and assumptions used are appropriate to the line of business, assess the sufficiency and quality of the data provided and compare best estimates against experience. In addition, the Actuarial function is involved in developing, parameterising and calculating the outputs of the Group's Economic Capital Model and assisting in pricing the products sold by the Group's insurance provider, HCCII (the Company).

In forming and formulating its actuarial view, the actuarial function is objective and free from influence of other functions and management. The department is operationally independent and provides its opinions in an independent fashion, adhering to professional and regulatory standards and fit and proper guidelines.

### ***B7 – Outsourcing***

In order to conduct its operational functions as effectively and efficiently as possible the Group may, as appropriate, find it necessary to outsource certain activities. Given that an outsourcing arrangement results in a shift from direct to indirect operational control of an activity it will always change Group's risk profile and the risk management system must reflect this.

The Group seeks to manage the severity and frequency of identifiable risks by:

- (1) ensuring an effective supplier selection process incorporating due diligence procedures; and
- (2) making certain that the arrangement is formally structured through:
  - the effective management of transition risk;
  - monitoring and review within the regulatory framework;
  - ensuring that a signed contractual agreement is in place which includes an agreed service level and whilst not an exhaustive list, covers inspection rights and confidentiality;
  - viable contingency plans including ensuring that a termination/exit strategy are in place; and
  - retaining control over any valuable confidential information which is owned by the Group and may be shared and used by a third party by having a standard non-disclosure agreement in place.

In achieving this the Group aims to avoid impairing the quality of the system of governance, unduly increasing operational risk, impairing the ability of supervisor to supervise and undermining the service to policyholders.

Strong governance and management oversight combined with assurance from the outsourcer via management information are deemed to be essential controls when managing the outsourcer relationship.

Key third party outsourcing providers are summarized below:

Outsourcing Provider	Outsourced Function	Location of service provider
D & B Risk Management Solutions	Credit services	UK
Ins-sure Holdings Limited	Policy administration	UK
Xchanging Claims Services Limited	Policy administration	UK
New England Asset Management Inc.	Asset Management	USA
Dynamo Analytics	Actuarial Services	UK
ADP Limited	Payroll processing Ireland	Ireland
ADP Limited	Payroll processing UK	UK
ADP International Services BV	Payroll processing Europe	Netherlands

***B8 – Any Other Information***

There is no additional information that requires disclosure.

## Section C – Risk Profile

TMHCC International 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 maintains a risk register and categorises its risks into six areas: Insurance, Strategic, Regulatory and Group, Market, Operational, Credit and Liquidity. The sections below define each category of risk and outline the Group's risk profile & risk concentration (where relevant), risk appetite and how it manages/mitigates each category. The Strategic, Regulatory and Group risks are covered in Section C6. The section concludes with details of the identified largest risks from the Risk Register, results from the most recent annual 'Stress & Scenario' exercise and emerging risks.

Ignoring any 'Brexit' impacts, it is not anticipated that there will be any material risk exposure changes over the three year planning cycle. Further discussion on 'Brexit' may be found under the 'Other Material Risks' section below.

HCC International Insurance Company plc ('HCCII' or 'the Company') is the sole underwriting entity within the group and other related companies are either holding companies in nature or of such size that they do not present material risks to the Group.

This section considers the identified risks categories separately. However, how these individual categories accumulate for the business as a whole is as important, if not more so. This brings in the concept of a dependency or correlation structure. For the Group, these are considered through the use of stress and scenario tests, where multiple risk categories are assumed to be impacted at one time. In addition understanding has been built up when parameterising the dependency structures underlying HCCII's capital model. These dependency structures have been derived from a variety of sources, including discussions with the business and executive management, obtaining benchmark information from external sources, such as actuarial consultants and investment managers, further use of stress and scenario tests. We also use this knowledge to review the dependency structure underlying the Standard Formula SCR calculations.

### ***C1 – Underwriting (Insurance) Risk***

The Group'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 premium or future underwriting risk (including delegated authorities), reinsurance purchasing, claims management and reserving. Each element is considered below.

#### *Premium Risk*

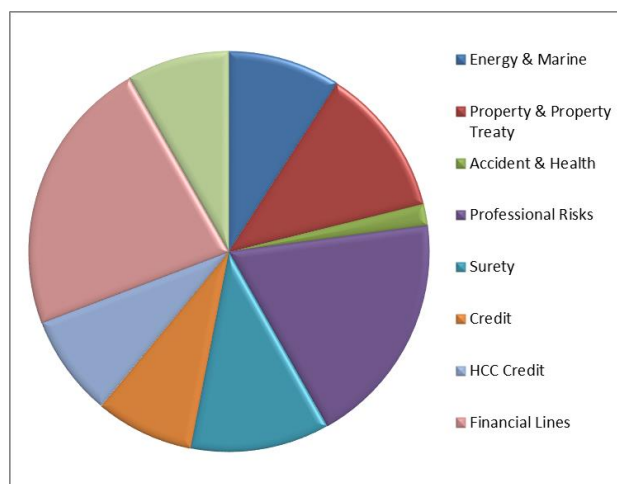
##### *Nature of the Risk*

Premium risk relates to the potential losses arising from inadequate future underwriting. There are four elements that apply to all insurance products offered by the Group:

- 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;
- Expense risk – the risk that the allowance for expenses and inflation in pricing is inadequate.

##### *Risk Profile & Concentration of the Risk*

The chart below shows 2018 budgeted gross written premium broken down into line of business.



The table above highlights concentrations of risk across the lines of business. The table below indicates the concentration of exposure to catastrophes. The concentration by geographic region is shown in Section A.

Cat/Non-Cat Split	Proportion of GWP
Catastrophe business	24.9%
Non-Cat business	75.1%

2018 Budget

#### Managing & Mitigating the Risk

The Group manages and models the four elements of underwriting risk in the following three categories; attritional claims, large claims and catastrophe events.

The Group'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 Group has developed limits of authority and business plans which are binding upon all staff authorised to underwrite and are specific to underwriters, classes of business and industry.

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

Reinsurance is one of the major risk mitigants used to protect the Company balance sheet. Whilst gross line size is limited to ensure there is a reasonable balance between gross line size and premium and shareholder equity/net assets, our potential retentions, especially on the catastrophe exposed business, are managed closely and reinsurance is used to control net exposures. Further details may be found under 'Reinsurance Risk' below.

The Group 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 Group sets out its risk appetite (expressed as Probable Maximum Loss estimates ('PML') and modelled return period events) in certain territories as well as a range of events such as natural catastrophes and specific scenarios which may result in large industry losses. The aggregate 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 Group is exposed.

The Group 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 (see separate 'Stress & Scenario' section below).

One of the largest types of event exposure relates to natural catastrophe events such as windstorm or earthquake. Where possible, the Group 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 following risk appetites are monitored by the Risk & Capital Management Committee (RCMC) and Board on a quarterly basis:

- Combination of premium volumes and rate change to be in line with, or better than, budget (this metric is calculated at a combined level);
- Maintaining a less than a certain probability of the underwriting result being a loss;
- Maintaining a diversified portfolio of underwriting with less than a defined percentage of premium coming from a single line of business;
- Maintaining a diversified portfolio of underwriting, below a specified average correlation, by Underwriting and Reserving;
- Absolute Gross per risk line size should a specified percentage of Shareholders' Equity ('SHE') or be double max net line;
- Maintaining a diversified portfolio not over-exposed to catastrophes, with less than a set percentage of premium Cat exposed in total across all entities;
- Net PMLs being below a specified percentage of SHE;
- Net modelled 1 in 1000 Cat event is less than a specified percentage of SHE;
- Less than 1% chance of gross Cat event being more than a specified percentage of SHE.

### *Reinsurance Risk*

#### Nature of the 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.

#### Risk Profile & Concentration of the Risk

A summary of the 2017 reinsurance programme is shown in the table below.

Line of Business	2017 Reinsurance Program
Casualty (PI, EL, PL, CAR)	PI: £9M xs £1M - 67% placed; EL&PL: £9.5m xs 0.5m - 67% placed PI & EL & PL: £1m xs £10m Costs Layer, £4m xs £1m Clash of Retentions - 67% placed CAR: £4m xs £1m
Property	\$48.25M xs \$5M cat \$3.75M xs \$1.25M risk
Property Treaty	\$30M xs \$35M/\$30M/\$15M dependent on territory Various placements ~\$104M xs \$35M cat aggregate \$15M xs \$2.0M Risk XL & Engineering Pro Rata \$1.5M xs \$0.5M Engineering Pro Rata per risk
Marine Hull	\$3.25M xs \$0.5M xs \$1M (+\$20m Hull limit shared w. Energy)
Energy	\$105m Risk & \$60m GoM XL Limit xs Various (\$7.5m-\$10m) 5% Whole Account ex Construction QS, 20% construction QS
A&H	\$14.95M xs \$50K (\$11M xs \$4M for losses <\$10m)
Financial Lines	\$20M xs \$5M - 40% placed D&O and Cyber/50% placed TRI, \$15M xs \$25M - 85% placed. \$15M clash cover 40% placed. 15% Quota Share. \$13m xs \$2m NAS
Political Risk/ Credit	\$38m part of \$46M xs \$4M
UK Credit	£47m xs £3m, 2 reinstatements
UK Surety	£70m xs £5m, 1 reinstatement (2 or 3 below £20m or £10m respectively)
Travel/Lifestyle (MIS)	£19.875m xs £125k (xs £375k otherwise recoverable), 1 reinstatements (more <£5m)

The table below indicate the top 5 exposures to individual reinsurers, based on XoL first loss contracts, across all TMHCC International entities.

Reinsurer	Proportion of Exposure
Hannover Rucks.	12.96%
Horseshoe Re Ltd	9.49%
Tokio Millennium Re Ltd	6.63%
Tokio Marine & Nichido Fire Insurance Co Ltd	5.13%
Lloyd's Syndicate 4472	5.03%

### Managing & Mitigating the Risk

Reinsurance is one of the most important risk mitigation tools used by the Company to mitigate risk within each of its regulated legal Entities. It also represents the key 'Future Management Action' within the Solvency II Internal Model at a legal Entity level.

The Company has an overall Business Strategy of which reinsurance purchasing plays a key part. The Reinsurance Strategy therefore represents an extension of the Business Strategy and is closely linked to the overall strategy execution.

The foundation of the Company Reinsurance Strategy is the individual limit profiles of the lines of business and risk tolerances for net individual risks and accumulation of risk losses from one individual event. Reinsurance needs to be utilised when we maintain limit profiles that exceed our net risk tolerances. In setting risks tolerances we consider the overall Group tolerances. Linked to these Group tolerances and the Company Business Strategy, the Company has in place a number of Board level risk appetite statements that control the risks taken by the individual business lines, regulated legal Entities and HCCII.

The bedrock of the Group and the Company strategy is to target an underwriting profit equivalent to at least a 10% return above the risk free rate over the insurance cycle. Each line of business has this same target albeit some consideration is given to longer tail lines or lines that achieve this return at the margin. This target may also vary by entity depending on the mix of business.

The Company employs various mechanisms to follow the underwriting strategy and control gross and net underwriting exposure risk. In areas of exposure to natural catastrophic perils, underwriting is very selective and control over gross aggregation and then ensuring adequate reinsurance protection is key. In other areas, the balance of volume, gross line size and net retentions are the largest drivers.

The Reinsurance Strategy of the Company is designed to manage risk and protect the result of each line of business from excessive volatility and reinsurance is therefore purchased at a line of business level but covering all legal Entities. From an individual entity perspective reinsurance is used to ensure reduced result volatility and capital preservation.

For the catastrophe exposed business, the key to the reinsurance purchasing is to obtain the correct balance of vertical coverage but ensuring a net retention that allows good portfolio balance. In respect of the more attritional lines of business, the key to the purchasing is to ensure a balanced portfolio by protecting the net retention and ensuring the cover to multiple potential individual losses is adequate.

Excess of Loss reinsurance is used as the basis of most of the core programmes of the key lines of business however quota share reinsurance is used where line size to premium volume is not as well balanced or there is the potential for a series of losses or a significant number of losses stemming from one individual event.

Risk attaching reinsurance is used where it is considered that risks have a longer duration with no provision to shorten the tail, loss occurring protection is used for the shorter tail businesses such as property. These are deemed core reinsurance protections.

Facultative reinsurance for individual risks may also be purchased to improve risk selection or to reinsure specific elements of a risk that do not fit into the overall underwriting strategy. This facultative reinsurance is purchased both for the benefit of our reinsurers and also for the benefit of our net retention, depending on the structure and circumstances.

For any cover purchase, the amount of cover should be commensurate with meeting the underwriting risk appetite statements. Considerations will include, but not necessarily be limited to, the proportion of risk ceded, retention levels, number of reinstatements and aggregate limits. The EUMC will review the cost benefit of price verses coverage, using the output from the Internal Capital Model.

An annual reinsurance purchase plan is included within the annual business plan for each line of business detailing the proposed reinsurance protections by class. This reinsurance purchase plan is reviewed and approved by the EUC for each line of business and also for each entity to ensure that risk appetite tolerances are maintained.

The risk appetites of the Company are measured at both an overall organisational and a legal Entity level. The expectation is that reinsurance is purchased to adequately protect the balance sheet in the event of a significant market event, a potential individual large risk loss or systemic losses caused by a single event. When purchasing reinsurance the following tolerances are managed at an overall organisation and a legal Entity level:

- Vertically protection by line of business to cover a significant proportion of the largest tail loss;
- For catastrophe exposed lines, retentions set with regard to the annual aggregate loss;
- For attritional lines, retentions are set with regard to the line of business maximum line size;
- Modelled 1 in 1000 catastrophe losses, across all lines, must not exceed a set level of shareholder equity;
- Maximum exposure to any one reinsurer in any one line of business programme must not exceed a set level of shareholder equity;
- Modelled 1 in 100 year reinsurance credit losses must not exceed a set shareholder equity;
- Exposure to one reinsurer must not exceed more than a set level of overall reinsured exposure.

### *Claims Management Risk*

#### *Nature of the Risk*

Claims management risk may arise within the Group 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 Group brand and undermine its ability to win and retain business, or incur punitive damages. These risks can occur at any stage of the claim life cycle.

#### *Managing & Mitigating the Risk*

The Group'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.

The following risk appetites are monitored by the Risk & Capital Management Committee (RCMC) and Board on a quarterly basis:

- Incurred movements to be less than 110% of a defined benchmark;
- Case reserve adequacy, within 30% of 1/3rd rule benchmark;
- Open claim frequency to be less than 110% of a defined benchmark;
- Time to first indemnity payment;
- Less than 10 complaints;
- Volume of denials less than a specified percentage of claims.

### *Reserving Risk*

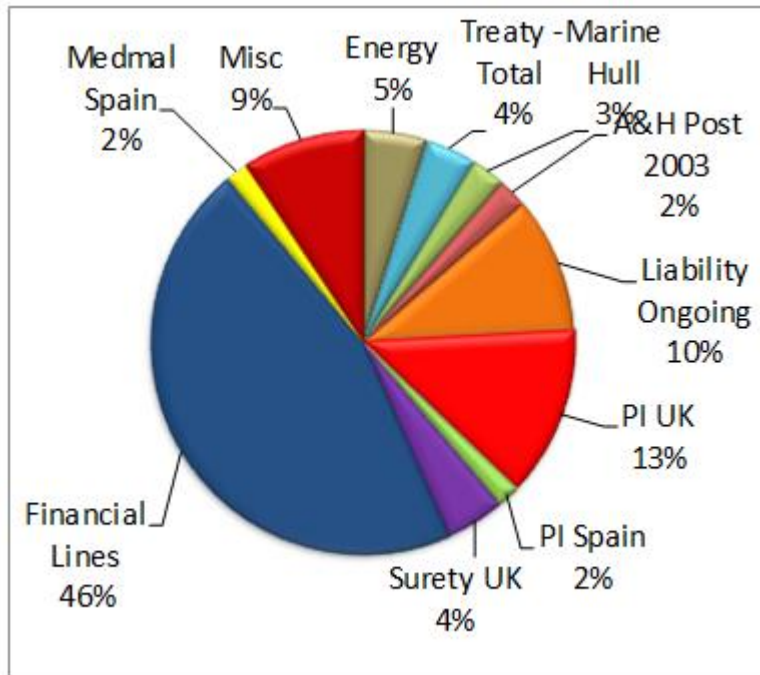
#### *Nature of the Risk*

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

#### *Risk Profile & Concentration of the Risk*

The pie chart below illustrates the concentration of reserves between the lines of business, based on 2017 year end net booked reserves for the Company on a US GAAP basis





Managing & Mitigating the Risk

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

The actuarial reserving team uses a range of recognised techniques to project current paid and incurred claims and monitors claim development patterns. This analysis is then supplemented by a variety of tools including back testing, scenario testing, sensitivity testing and stress testing.

The following risk appetites are monitored by the Risk & Capital Management Committee (RCMC) and Board on a quarterly basis:

- Maintaining reserves at, or above, Actuarial midpoint;
- Maintaining a less than set percentage probability of total reserve deterioration, excluding catastrophe losses, exceeding 100% of annual budgeted profit.

## C2 – Market Risk

### Nature of the 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.

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

For interest rate risk, some of the Group's financial instruments, including cash and certain financial assets at fair value, are exposed to movements in market interest rates.

### Risk Profile & Concentration of the Risk

A full list of assets may be found in QRT S.06.02. In summary, the split of assets is as follows:

Asset Type & Rating	31/12/17 Asset Value (\$m)
Government Bonds AAA	61.7
Government Bonds AA+	48.6
Government Bonds AA	87.5
Government Bonds AA-	34.0
Government Bonds A+	24.3
Government Bonds A	18.6
Government Bonds A-	2.1
Corporate Bonds AAA	25.7
Corporate Bonds AA+	33.0
Corporate Bonds AA	16.1
Corporate Bonds AA-	44.2
Corporate Bonds A+	72.1
Corporate Bonds A	121.1
Corporate Bonds A-	105.7
Corporate Bonds BBB+	84.1
Corporate Bonds BBB	46.6
Corporate Bonds BBB-	20.8
Corporate Bonds BB+	3.7
Corporate Bonds BB-	6.5
Corporate Bonds B+	1.2
Collateralised Securities AAA	17.7
Collateralised Securities AA+	334.5
Cash & Cash Equivalents	109.0
Collective Investment Funds	28.5
Investment in Subsidiary	3.1
Property (Other than own use)	0.2
Property, Plant & Equipment held for own use	2.9
<b>Total</b>	<b>1,353.5</b>

It is noted that there are no derivatives within the investment portfolio. The collateralised assets represent collateral for various Credit contracts.

### Managing & Mitigating the Risk

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

The Investment Committee has an objective to ensure funds are invested in accordance with the 'prudent person principle', whereby: i) assets are of appropriate security, quality and liquidity; ii) are adequately diversified and are localised; and iii) broadly match the liabilities. This is achieved by: i) setting an appropriate strategy and risk appetite; ii) regular monitoring of the portfolio against key metrics (outlined at the end of the section); and iii) use of independent experts.

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 2016, 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 Group's excess capital (above the regulatory minimum). This was the result of a complete investment strategy review carried out with the assistance of the Group's Investment Managers, New England Asset Management Ltd. The investment risk budget was at a similar level in 2017.

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

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

For foreign exchange risk, the Group operates in five main currencies: US Dollars, Sterling, 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 at the US Dollar spot rate. Additionally, as a requirement under UK GAAP, for the purposes of applying the requirement of section 30 Foreign Currency Translation of FRS 102, all assets and liabilities arising from an insurance contract are treated as monetary items.

For interest rate risk, the Group 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 Group 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 risk appetites are monitored by the Investment Committee, Risk & Capital Management Committee (RCMC) and Board on a quarterly basis:

- Investment returns to be greater than zero (i.e. investments are not destroying capital values);
- Maintaining asset duration at less than 2.5 times average reserve duration and no greater than 5 years at the maximum;
- Risk of currency mismatch exposure at 1 in 100 years should not exceed a specified percentage of US GAAP SHE;
- Maintaining a portfolio with no greater than a specified percentage in risk assets;
- Maintaining a portfolio where various shocks are within stated appetites;
- To maintain a minimum average rating of investment portfolios of A.

### C3 – Credit Risk

#### Nature of the 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 Group are:

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

#### Risk Profile & Concentration of the Risk

The tables below indicate the outstanding reinsurance balances as at 31/12/2017 split by age of the debt, across all entities.

0 to 30 days	31 to 120 days	121 to 180 days	181 + days	Total (\$m)
5.5	8.1	1.8	19.0	34.4

The table below shows the largest exposure to individual issuers in the investment portfolio as at 31 December 2017.

Issuer	Asset Value (\$m)	%age of Total Assets
GUARANTEED NATIONAL MORTGAGE ASSOCIATION	275.4m	20.3%

There are a few immaterial collateral arrangements with reinsurers.

#### Managing & Mitigating the Risk

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

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

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

The following risk appetites are monitored by the Risk & Capital Management Committee (RCMC) and Board on a quarterly basis:

- Reinsurers to have a minimum rating of A, unless specifically approved;
- Maintaining less than 75% exhaustion across the reinsurance programme in total;
- Maintaining a maximum exposure to any one reinsurer in any one programme of no more than a specified percentage of SHE;
- Maintaining no more than 1% of outward reinsurance balances over 180 days old;
- Maintaining a1 in 100 year Credit loss not exceeding a specified percentage of SHE;
- No more than a specified percentage of business written through a single broker;
- No single holding of 5% or more (excluding government guaranteed securities) (this metric is calculated at a combined level).

## **C4 – Liquidity Risk**

### Nature of the Risk

Liquidity risk arises where cash may not be available to pay obligations when due at a reasonable cost. The Group 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.

### Risk Profile & Concentration of the Risk

The table in Section C2 shows that a significant proportion of assets are readily realisable. These are spread among a wide group of issuers. For example, the government bonds are spread over nearly 90 national or quasi-national government issuers, with the largest being about 12% of the total. On top of this, the regular inflow of premiums means that a very high level of liquidity is maintained, should the need arise.

The total amount of the expected profit included in future premiums as calculated in accordance with Article 260(2) is \$32.0m (2016: \$6.7m). Future premiums come from either current balances or unaccepted premiums. For current balances, it is assumed that they related to unearned business. Future profit is assessed by comparing these premiums to: i) losses derived by applying the same loss ratio as for the whole unearned premium reserve, which are derived from the Solvency II technical provision process and are based on actuarial IEULRs or corresponding budget loss ratios (for those lines not actuarially analysed); and ii) expenses derived by using the expense ratio of the whole unearned premium reserve, which are derived from the Solvency II technical provision process. The main driver in the increase of expected profit included in future premiums is an increase in the current balances at 31 December 2017 versus 31 December 2016.

### Managing & Mitigating the Risk

The Group's approach is to manage its liquidity position so that it can reasonably survive a significant individual or market loss event (details of the Group's management of its exposure to loss scenarios are provided above under the heading of Underwriting Risk). This means that the Group 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 Group can also draw on parental funds to bridge short-term cash flow requirements, should the need arise.

## C5 – Operational Risk

### Nature of the 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.

### Risk Profile & Concentration of the Risk

The tables below show the top 10 worst case and near term operational risks for HCCII, from the most recent Operational Risk review undertaken in 2017.

#### **Worst Case**

Operational Risks
Wordings Risk
Operational Cyber Risk
High Profile Third Party Disputes
Business Continuity Risk
Conduct Risk
Aggregation Risk
Business Change Risk
Delegated Underwriting Risk
Failure to meet regulatory requirement
Credit Rating Risk

*Ranking includes all risks categorised under Operational Risk within TMHCC Int. capital models*

#### **Near Case**

Operational Risks
Wordings Risk
Conduct Risk
Credit Rating Risk
Delegated Underwriting Risk
Aggregation Risk
Business Continuity Risk
Failure to meet regulatory requirement
Claims Management Risk
Failure to achieve desired staff culture and competence
Loss of Key Personnel

*Ranking includes all risks categorised under Operational Risk within TMHCC Int. capital models*

### Managing & Mitigating the Risk

The Group actively manages and minimises operational risks where appropriate. This is achieved by implementing and communicating guidelines and detailed procedures and controls to staff and other third parties. The Group regularly monitors the performance of its controls and adherence to procedures through the risk management reporting process. Key components of the Group'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;
- Other systems controls.

Addressing conduct risk has always been treated as a priority irrespective of the regulatory emphasis on the selling of financial products, including insurance products, to consumers. The Group's primary objective is that all policyholders should receive fair treatment throughout the product lifecycle, which requires the effective management of conduct risk. However, conduct risk is not

limited to the fair treatment of customers and our Conduct Risk Policy broadly defines conduct risk as ‘...the risk that detriment is caused to the company, our customers, clients or counterparties because of the inappropriate execution of our business activities.’

The Group therefore seek at all times to perform its business activities in a manner that is not only fair, honest and transparent but that also complies fully with applicable UK and International laws and regulations and internal policies and procedures. We ensure that this ethos is clearly communicated from the Board of directors downwards to all members of staff and oversight is provided throughout the governance structure, primarily by way of the Product Governance and Distribution Committee. Day-to-day responsibility for monitoring the fair treatment of customers and broader aspects of conduct risk resides with the International Compliance Department which undertakes scheduled reviews as part of a comprehensive Compliance Monitoring schedule.

The following risk appetites are monitored by the Risk & Capital Management Committee (RCMC) and Board on a quarterly basis:

- Total labour turnover;
- Unexpected resignations from key staff;
- Benchmark salary and benefits against market;
- Maintaining the number of sick days per employee to be less than 3 per annum;
- Maintaining less than 2 incidents outside of agreed SLAs per quarter;
- No major projects significantly over budget and/or timescale;
- Data Quality;
- Various compliance metrics;
- Maintaining a 1 in 250 operational risk loss at less than a specified percentage of SHE;
- Maintaining less than 20% chance of operational loss exceeding a defined amount.

### ***C6 – Other Material Risks***

This section covers strategic, regulatory and group risks which the Group manages together, but which are outlined separately below.

As discussed in Section E6 of this report, Brexit represents a material risk to the Group (and the Company). Work is also underway to ensure that the current data protection framework is enhanced sufficiently to achieve adherence to the new GDPR legislation, which comes into force in 25 May 2018. The other material undertaking for the Company is the adoption and implementation of IFRS 17. The standard is to be adopted by TMHD in Japan, which will result in an extensive project to manage the application of the requirements ahead of the go live date of 31 March 2022.

#### *Strategic Risk*

##### *Nature of the Risk*

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

##### *Managing & Mitigating the Risk*

On a day-to-day basis, the Group’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 Group as a whole.

The following risk appetites are monitored by the Risk & Capital Management Committee (RCMC) and Board on a quarterly basis:

- The combined ratio to be achieved in the current year to ensure an overall combined ratio of 88% or better over the underwriting cycle;
- Net earnings to be within 20% negative variance of budget;
- Maintaining a less than 2.5% probability of a net loss, including investment income, exceeding a specified percentage of SHE;
- Forecast expense ratio to be within 20% negative variance of budget;
- SII available assets as a % of Regulatory capital + Buffer;
- Maintaining a less than 5% probability of net assets falling below solvency requirement.

## *Regulatory Risk*

### *Nature of the Risk*

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

### *Managing & Mitigating the Risk*

The Group estimates its 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, the Company is currently outside of the PRA Internal Model Approval Process ('IMAP') and since 1 January 2016 has measured 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 against the Company's Solvency II Available Assets to monitor its Solvency. Given the inherent volatility of the SF SCR and Solvency II Available Assets, the Company carries an amount in excess of the regulatory minimum. At 31 December 2017, the Solvency II Available Assets were 206% (2016: 193%) of the requirement.

## *Group Risk*

### *Nature of the 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, Contagion and Reputation, which are explained below.

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 Group is a member of the Tokio Marine group and therefore may be impacted by the actions of any other group company.

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.

### *Risk Profile & Concentration of the Risk*

The Company engages in various intra-group transactions, which are transacted on an arm's length or open market basis, where relevant. It also has two material related party reinsurances with other Tokio Marine Group companies over time, it is expected that the acquisition of HCC by Tokio Marine will lead to further intra-group transactions.

### *Managing & Mitigating the Risk*

Contagion 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.

For reputation risk, the Group's preference is to minimise reputation risks, but it is not possible or beneficial to avoid them, as the benefits of being part of the group brand are significant. We consider reputation risk as an impact on all risk events in the Risk Register, but not as a risk in its own right.



## C7 – Any other information

### Top 10 Risks

The table below identifies the top ten risks, on a worst case scenario basis for the Company, as a result of the most recent risk register review and scoring exercise.

As at 31st December 2017
Risks
Reserving risk
Catastrophe/Large losses outside of business plan
Systemic Losses outside of business plan
Investment Market Volatility
Selection risk
Foreign Exchange Risk
Inadequate pricing methodology
Operational Cyber
High profile Third Party disputes
Business continuity risk

The following table shows the results of considering the Company's top ten risks on a near case basis, providing a more probable profile of the top ten risks facing the company.

As at 31st December 2017
Risks
Reserving Risk
Systemic Losses outside of business plan
Investment Market Volatility
Catastrophe/Large losses outside of business plan
Selection risk
Foreign Exchange Risk
Conduct Risk
Inadequate pricing methodology
Reluctance or total failure of premium counterparties to pay
Delegated underwriting risk (outside of Group)

On both a worst case and near term basis, insurance and market risks constitute the majority of the top ten risks. These quantifications are derived from the Company's economic capital model. The operational and credit risks are calculated from scenario analysis performed with risk owners.

In addition to identifying the quantitative nature of the risks, we also look at the qualitative nature that takes into account the controls we have in the business to reduce these risks and assign residual score probability and impact assessments to each of the risks in turn, independently of the worst case scenarios.

The business, by its very nature, has the potential for some significant losses and it is important that these exposures are mitigated. The Board is comfortable, based on the above analysis, that these risks are adequately mitigated and therefore would not expect these losses to occur, even in the tail.

### Stress and Scenario Testing

As part of the overall process of risk control and in consideration of business strategy, capital setting and understanding the risk profile, various risks are considered by the business. These risks broadly fall into three areas:

- Risk of ruin, as viewed via reverse stress tests that test the risk of ruin;
- Risk of multiple events on the business model and strategy via compound stress tests that test the risk of multiple events on the business model and strategy;
- Emerging risks that are potential risks to the business model and strategy.

The work completed in this area is key to ensuring the full range and impact of risks, both current and potential, is understood and represented in the capital model and risk register.

The following sub-sections provide further details of the three areas, with consideration as to how they could potentially impact the business on a forward-looking basis. The events described could happen in any of the following three years. However, the numerical analysis assumes that the events occur in the first future year, as this would be the most adverse time for them to occur.

#### Risk of Ruin via Reverse Stress Tests

The identification of the reverse stress tests, the events or combination of events that could threaten the viability of the business, was completed by a committee of senior and executive management representing Underwriting, Claims, Finance and Operations, with the support of the Enterprise Risk and Actuarial teams to quantify the potential exposures.

The two key risks for the Company relate to Financial Lines Directors and Officers Liability (with regard to both reserving and underwriting risks) and European Windstorms. However, an additional RST was performed as part of the 2017 exercise, relating to a combination of cyber losses and natural catastrophes.

The reverse stress tests considered are shown in the table below. They were calibrated to threaten the viability of the business, which was defined as leading the Company's own funds to fall close to, or below, the Company's Standard Formula Minimum Capital Requirement (MCR), on either a one year or ultimate basis. Smaller reductions in net assets (which might, for example, initially lead to a breach of the SCR) are assumed to be replenished through the revolving loan facility described previously. It is believed that this facility will be available due to the significant diversification in business between the International section and the rest of the TM Group.

Scenario	Description
<b>RST1: Two cat events</b>	Two large European Windstorms occurring in the same quarter, impacting the insurance and reinsurance markets. With the severity of the assumptions made, this is estimated to be well beyond a 1 in 1000 event.
<b>RST2: Inflationary Event</b>	An inflationary event that leads to economic and insurance/reinsurance market turmoil, followed by shareholder actions that impact the Company's Financial Lines account. With the severity of the assumptions made, this is estimated to be an approximately 1 in 1000 event.
<b>RST3: Windstorm event and Cyber Attack</b>	The scenario considers multiple events happening at the same time. The events include a highly destructive hurricane, an unprecedented cyber event, a large stock market decline and a major reinsurer default. With the severity of the assumptions made, this is estimated to be an approximately 1 in 500 event.

#### Risk of multiple events on business model via Compound Scenarios

On top of the Reverse Stress Tests, which are likely to cause the Company failure, we have identified various compound scenarios, i.e. a number of events occurring concurrently, that help the business better understand risk drivers of HCCII. It was felt that these represented an appropriate set of 'near term' events that could realistically impact the business and could be used to help test the economic capital model at lower return periods. The scenarios were discussed and agreed by the same committee of individuals that assessed the reverse stress tests.

The compound scenarios assessed were as follows:

- CS1: Loss of a key underwriting team, which is assumed to leave for a competitor and takes its existing book of business. It is calibrated to an estimated 1 in 10 year event.
- CS2: Loss of key revenue stream, whereby the most material broker significantly reduces the amount of business placed with TM HCC as part of a strategic review of its panel of insurers. It is calibrated to an estimated 1 in 10 year event.
- CS3: Combination of a Catastrophe event and Business Interruption, whereby a major European windstorm and UK flooding occur in the middle of 1 January renewals. It is calibrated to an estimated 1 in 50 year event.
- CS4: A major UK construction company completely fails leading to losses on multiple lines. It is calibrated to an estimated 1 in 20 year event.

## Potential impacts of Reverse Stress Tests and Compound Scenarios

Each of the scenarios has been analytically assessed, with the expert judgements and assumptions recorded, along with the potential financial impact. The tables below provide an indication of the impact on each risk area, along with the impact on overall capital and solvency ratios.

### Ultimate Basis

Scenario	Ins Risk	Cred Risk	Mkt Risk	Op Risk	Overall Capital Impact	SII Net Assets / SF SCR post scenario <sup>1</sup>	SII Net Assets / SF MCR post scenario <sup>1</sup>
RST1	>\$500m	\$20m-\$50m	0-\$10m	0-\$10m	>\$500m	<100%	<100%
RST2	\$200m-\$300m	\$20m-\$50m	\$50m-\$100m	\$50m-\$100m	\$400m-\$500m	<100%	150%-200%
RST3	\$400m-\$500m	\$20m-\$50m	\$20m-\$50m	\$20m-\$50m	>\$500m	<100%	100%-150%
CS1	0-\$10m	0-\$10m	0-\$10m	\$10m-\$20m	\$10m-\$20m	200%-250%	550%-600%
CS2	0-\$10m	0-\$10m	0-\$10m	\$10m-\$20m	\$10m-\$20m	200%-250%	550%-600%
CS3	\$100m-\$200m	0-\$10m	0-\$10m	\$10m-\$20m	\$100m-\$200m	150%-200%	400%-450%
CS4	\$100m-\$200m	0-\$10m	0-\$10m	0-\$10m	\$100m-\$200m	150%-200%	450%-500%

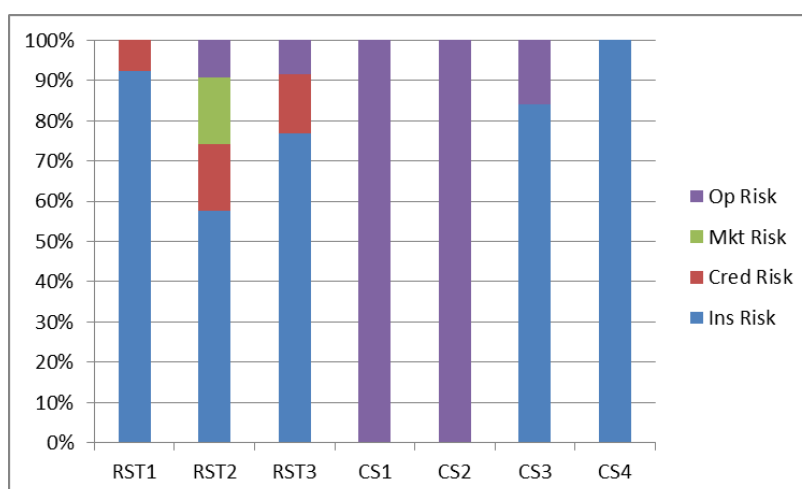
<sup>1</sup>: Note using an ultimate capital impact to re-assess solvency ratios. Base SII Net Assets / SF SCR is 206%; base SII Net Assets / SF MCR is 580%

### One Year Basis

Scenario	Ins Risk	Cred Risk	Mkt Risk	Op Risk	Overall Capital Impact	SII Net Assets / SF SCR post scenario <sup>1</sup>	SII Net Assets / SF MCR post scenario <sup>1</sup>
RST1	\$300m-\$400m	\$20m-\$50m	0-\$10m	0-\$10m	\$300m-\$400m	<100%	100%-150%
RST2	\$100m-\$200m	\$20m-\$50m	\$20m-\$50m	\$20m-\$50m	\$200m-\$300m	100%-150%	300%-350%
RST3	\$100m-\$200m	\$20m-\$50m	0-\$10m	\$20m-\$50m	\$200m-\$300m	100%-150%	350%-400%
CS1	0-\$10m	0-\$10m	0-\$10m	\$10m-\$20m	\$10m-\$20m	200%-250%	550%-600%
CS2	0-\$10m	0-\$10m	0-\$10m	\$10m-\$20m	\$10m-\$20m	200%-250%	550%-600%
CS3	\$50m-\$100m	0-\$10m	0-\$10m	\$10m-\$20m	\$100m-\$200m	150%-200%	450%-500%
CS4	\$50m-\$100m	0-\$10m	0-\$10m	0-\$10m	\$50m-\$100m	150%-200%	500%-550%

<sup>1</sup>: Base SII Net Assets / SF SCR is 206%; base SII Net Assets / SF MCR is 580%

The chart below shows the breakdown of each of the scenarios into risk component proportions (based on the one year basis).



## ECM Validation of Stress and Reverse Stress Test Results

Part of the overall process of setting stress and scenario tests involves the business estimating various return periods for each of the above events. These return periods are then checked against the return periods produced by the ECM to validate the model tail events and ensure they are consistent in terms of frequency and severity to those expected by management, as well as corroborating the drivers of the tail events within the ECM.

The validation work indicates a high degree of correlation between management expectations and model output, for both frequency and severity.

## **Emerging Risks**

Identification and analysis of emerging risks is key to ensuring that the Company's business strategy is sound and considers areas of potential impact that may not be apparent in today's environment.

Emerging risks are considered when performing a number of key processes throughout the year. Initially these are considered as part of the annual strategic and business planning process involving all risk owners across the underwriting units, but also overlaid with assessment from support functions – as part of forecasting for the year(s) ahead. Each is asked to consider whether there are a) any emerging risks in their area of ownership and b) whether they believe this could have an adverse impact on achieving the stated objectives of the company. In addition, emerging risks are discussed within the quarterly review of the risk register and considered when reviewing the risk register for completeness.

Outputs from these are combined with the previous emerging risk list that has been developed. The list, plus any additions, are considered by the Risk and Capital Management Committee, following each risk register review. This process was refined during 2015 with more consideration being given to both impact and likelihood analysis to bring a better perspective to the perceived emerging risks. The benefit of analysing at this level is to allow the understanding of the correlation between how thoroughly an emerging risk is understood (tangible) against its probability of occurrence (likelihood). The identification and review process has become well embedded throughout 2016 and 2017.

In identifying emerging risks, information is obtained from various sources; this provides integrity to the emerging risks identified and ensures all key aspects of emerging risks are identified. The sources of information include the following:

- Lloyd's emerging risk workshops are attended by the Enterprise Risk Management team
- Various journals and research papers are analysed (including reports issued by Lloyd's)
- Discussions with current risk and control owners in regards to specific emerging risks to the business

Once the agreed list of emerging risks is produced and analysed, the Enterprise Risk team are able to determine whether risks identified might be applicable to TMHCC International and these are then listed on the Emerging Risks Register and anything considered pertinent is presented to the RCMC for discussion.

If an emerging risk, as part of the emerging risk review, is considered to be becoming a current risk by the RCMC, the risk is transferred onto the Company risk register where the residual risk score is determined and current controls can be assessed and monitored against the risk. This then just forms part of the risk register and the risk is dropped from the Emerging Risk Register.

	Risk	Risk Owner	Understanding	Change in likelihood	Threats	Opportunities
Technology	Cloud Security	RP	●	→	<ul style="list-style-type: none"> <li>- Cannot provide same indemnification regarding data security (Data Protection)</li> <li>- Loss of control</li> <li>- Aggregation risk</li> <li>- Cost</li> </ul>	<ul style="list-style-type: none"> <li>- Reduced infrastructure costs</li> <li>- Flexible capacity</li> <li>- Access any time, any where</li> <li>- Less maintenance, IT resource available for other projects</li> </ul>
	Nanotechnology	CI	●	→	<ul style="list-style-type: none"> <li>- Pollution/hazardous to life and environment</li> <li>- Product recall due to unsafe product after research</li> <li>- Latent claims e.g. asbestos</li> </ul>	<ul style="list-style-type: none"> <li>- New, stronger materials e.g. for cars/buildings</li> <li>- Better environment clean-ups</li> <li>- Medicines cheaper</li> </ul>
	Drones	TH	●	→	<ul style="list-style-type: none"> <li>- Cyber attack on drones</li> <li>- Collisions with people/property</li> <li>- Privacy concerns</li> <li>- PL for manufacturers</li> </ul>	<ul style="list-style-type: none"> <li>- Better/safer surveys</li> <li>- Claims adjusters see impacted areas therefore reducing settlement times</li> </ul>
	Blockchain	TH	●	→	<ul style="list-style-type: none"> <li>- Scalability</li> <li>- Understanding</li> <li>- Are systems/processes ready?</li> </ul>	<ul style="list-style-type: none"> <li>- Increase effectiveness in fraud prevention &amp; detection</li> <li>- Reduced admin cost</li> </ul>
	Driverless cars	SB	●	→	<ul style="list-style-type: none"> <li>- Who would have liability?</li> <li>- Cyber risk</li> <li>- Changes to manufacturing insurance</li> </ul>	
	Silent Cyber Risk	NHP	●	→	<ul style="list-style-type: none"> <li>- Silent cyber exposure remains unclear, with the risk still developing</li> </ul>	
	Artificial Intelligence/Machine Learning	TH	●	→	<ul style="list-style-type: none"> <li>- How will AI/machine learning impact required skillsets</li> </ul>	<ul style="list-style-type: none"> <li>- Potential new products to be developed to cover exposures resulting from these innovations</li> </ul>
Regulation	Post Brexit Regulation	SB	●	→	<ul style="list-style-type: none"> <li>- The need to adhere to CAA regulations</li> <li>- Management time spent to set up subsidiary</li> </ul>	
	International sanctions versus EU sanctions	TH	●	→	<ul style="list-style-type: none"> <li>- Imposed sanctions have historically been closely matched between the US/Internationally and the EU. Iran is a divergence in this pattern and could result in underwriters being unclear whether or not it is permissible to write certain risks.</li> </ul>	
Geopolitical	Local Terrorism	TH	●	→	<ul style="list-style-type: none"> <li>- Increasing terrorism threats across the globe, increasing aggregation risk etc.</li> </ul>	
	Political unrest	TH	●	→	<ul style="list-style-type: none"> <li>- Political unrest is elevated around the world, increasing claims for those areas</li> </ul>	
Operational	Succession Planning	AB	●	→	<ul style="list-style-type: none"> <li>- Potential for executive management team and lead underwriters to retire at a similar time</li> </ul>	<ul style="list-style-type: none"> <li>- Potential to rehire and bring 'fresh eyes' to business</li> </ul>
Economic	Global economic stability	SB	●	→	<ul style="list-style-type: none"> <li>- New American administration, current relations with North Korea and Brexit negotiations all contribute to market uncertainties</li> </ul>	
	London Financial Market Stability	NHP	●	→	<ul style="list-style-type: none"> <li>- Hard Brexit could cause our clients to move to European centres</li> </ul>	

## Section D – Valuation for Solvency Purposes

The Solvency II directive (Article 75) requires that an economic, market consistent approach to the valuation of assets and liabilities is taken. The basis of preparation of the assets and liabilities for solvency purposes is aligned with the basis of preparation of the UK statutory financial statements, unless otherwise documented below. This applies to both the Group and Company Solvency II net asset valuation.

The Group and Company financial statements have been prepared in conformity with UK GAAP on a going concern basis. The details of the accounting policies used by the company can be found in the attached financial statements of HCCII, which are included in Section G of this report.

The table below shows the Group's balance sheet reconciliation from the UK GAAP figures, through the Solvency II reclassifications and valuation adjustments, to the Solvency II balances reported in the QRTs. The adjusted method has been applied in preparing the Solvency II Balance sheet. This means that the Non-controlling interest valuation is not included in the Solvency II Balance sheet. The Non-controlling interests' value as at 31 December 2017 was \$0.1m.

Group Balance Sheet Reconciliation from UK GAAP to Solvency II	UK GAAP	SII Reclass Adj	As at 31 December 2017					As at 31/12 /16
			SII Valuation Adj Tech. Provisions	SII Valuation Adj DAC & UPR	SII Valuation Adj Other	Non-control interest Adj	Solvency II	Solvency II
As at 31 December 2017	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
<b>Assets</b>								
Investments	1,229,996	69,685					1,299,681	1,118,340
Goodwill	6,566				(6,566)		-	-
Deferred acquisition costs	75,071			(75,071)			-	-
Property, plant & equipment held for own use	3,086						3,086	2,836
Reinsurance recoverables from non-life	344,115		(27,441)	(54,611)			262,063	252,166
Insurance and intermediaries receivables	107,838		(83,619)		2		24,221	12,390
Reinsurance receivables	53,035				(26,422)		26,613	23,075
Receivables (trade, not insurance)	27,779					(53)	27,726	54,057
Cash and cash equivalents	112,877	(61,099)				(57)	51,721	121,385
Any other assets, not elsewhere shown	8,586	(8,586)					-	33
<b>Total assets</b>	<b>1,968,949</b>	<b>-</b>	<b>(111,060)</b>	<b>(129,682)</b>	<b>(32,986)</b>	<b>(110)</b>	<b>1,695,111</b>	<b>1,584,282</b>
<b>Liabilities</b>								
Technical provisions - non-life	1,091,087		38,901	(306,236)			823,752	787,336
Deferred tax liabilities	10,514				6,330		16,844	16,979
Insurance & intermediaries payables	11,313						11,313	15,814
Reinsurance payables	52,773		(23,133)				29,640	22,989
Any other liabilities, not elsewhere shown	114,743			(10,007)	(1)	2	104,737	114,674
<b>Total liabilities</b>	<b>1,280,430</b>	<b>-</b>	<b>15,768</b>	<b>(316,243)</b>	<b>6,329</b>	<b>2</b>	<b>986,286</b>	<b>957,792</b>
<b>Excess of assets over liabilities</b>	<b>688,519</b>	<b>-</b>	<b>(126,828)</b>	<b>186,561</b>	<b>(39,315)</b>	<b>(112)</b>	<b>708,825</b>	<b>626,490</b>

The table below shows the Company's balance sheet reconciliation from the UK GAAP figures through the Solvency II reclassifications and valuation adjustments to the Solvency II balances reported in the QRTs.

		As at 31 December 2017						As at 31/12 /16
Company Balance Sheet Reconciliation from UK GAAP to Solvency II		UK GAAP	SII Reclass Adj	SII Valuation Adj Tech. Provisions	SII Valuation Adj DAC & UPR	SII Valuation Adj Other	Solvency II	Solvency II
As at 31 December 2017	Note	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
<b>Assets</b>								
Investments	D1 (1)	1,233,057	69,685				1,302,742	1,126,548
Goodwill	D1 (2)	6,566				(6,566)	-	-
Deferred acquisition costs	D1 (3)	75,071			(75,071)		-	-
Property, plant & equipment held for own use	D1 (4)	2,916					2,916	2,684
Reinsurance recoverables from non-life	D2	344,115		(27,441)	(54,611)		262,063	252,166
Insurance and intermediaries receivables	D1 (5)	107,142		(83,619)			23,523	9,716
Reinsurance receivables	D1 (5)	53,035				(26,422)	26,613	23,075
Receivables (trade, not insurance)	D1 (5)	26,081					26,081	50,294
Cash and cash equivalents	D1 (6)	108,958	(61,099)				47,859	119,754
Any other assets, not elsewhere shown	D1 (7)	8,586	(8,586)				-	31
<b>Total assets</b>		<b>1,965,527</b>	<b>-</b>	<b>(111,060)</b>	<b>(129,682)</b>	<b>(32,988)</b>	<b>1,691,797</b>	<b>1,584,268</b>
<b>Liabilities</b>								
Technical provisions - non-life	D2	1,091,087		38,901	(306,236)		823,752	787,336
Deferred tax liabilities	D3 (1)	10,605				6,330	16,935	16,979
Insurance & intermediaries payables	D3 (2)	11,313					11,313	12,698
Reinsurance payables	D3 (2)	52,773		(23,133)			29,640	22,989
Any other liabilities, not elsewhere shown	D3 (3)	116,620			(10,007)		106,613	122,320
<b>Total liabilities</b>		<b>1,282,398</b>	<b>-</b>	<b>15,768</b>	<b>(316,243)</b>	<b>6,330</b>	<b>988,253</b>	<b>962,322</b>
<b>Excess of assets over liabilities</b>		<b>683,129</b>	<b>-</b>	<b>(126,828)</b>	<b>186,561</b>	<b>(39,318)</b>	<b>703,544</b>	<b>621,946</b>

Given the concentration of the risk in the Company, the Valuation section below presents the Company position. In particular it identifies the movements in investments and technical provisions over 2017, which drive the overall movements in both the Group and the Company Solvency II balance sheets.

There are no material intra-group consolidation eliminations in the Group balance sheet.

The only area where significant assumptions and judgments have been applied in the valuation process for the Solvency II balance sheet is in respect of the technical provisions. These assumptions and judgements are detailed in Section D2.

The following sections detail the Solvency II adjustments and the valuation basis for each line of the balance sheet and are referenced above in the note column.

## D1 – Assets

The Solvency II adjustments and valuation approach for each asset group in the above balance sheet order are detailed below with the exception of the technical reserves that are discussed in section D2.

### D1 (1) - Investments

At 31 December 2017, the Company investments were as follows:

Company Reconciliation from UK GAAP to Solvency II USD'000	UK GAAP	SII Reclass	Solvency II
Government Bonds	274,304	2,400	276,704
Corporate Bonds	575,701	5,215	580,916
Collateralised Securities	351,202	971	352,173
Equities – listed	-	-	-
Collective Investments Undertakings	28,550	-	28,550
Deposits other than cash equivalents	-	61,099	61,099
Holdings in related undertakings, including participations	3,061	-	3,061
Property (other than for own use)	239	-	239
<b>Investments</b>	<b>1,233,057</b>	<b>69,685</b>	<b>1,302,742</b>

At 31 December 2016, the Company investments were as follows:

Company Reconciliation from UK GAAP to Solvency II USD'000	UK GAAP	SII Reclass	Solvency II
Government Bonds	64,844	601	65,445
Corporate Bonds	629,053	6,297	635,350
Collateralised Securities	310,504	847	311,351
Equities – listed	77,005	158	77,163
Collective Investments Undertakings	28,792	-	28,792
Holdings in related undertakings, including participations	8,208	-	8,208
Property (other than for own use)	239	-	239
<b>Investments</b>	<b>1,118,645</b>	<b>7,903</b>	<b>1,126,548</b>

Key movements in the year include the following:

- Liquidation of equity holdings in Q1 2017, with proceeds reinvested in the bond portfolio;
- Reduction in Holdings in related undertaking, following receipt of dividends;
- Key driver for total increase is the result of operating cash flow receipts in the year.

### Solvency II Reconciliation

The \$8.6m Solvency II reclassifications made to the value of the investments is to classify accrued interest on bonds and equities as Investments instead of prepayments and accrued interest as shown under UK GAAP.

### Valuation

#### *Bonds, Securities, Equities and Collective Investment Undertakings*

The Group values its financial investments at fair value in accordance with FRS 102 which is consistent with the requirement under Solvency II. The Company categorises financial investments into levels 1, 2 and 3, reflecting the categorization criteria specified in FRS 102 (s34.22).

FRS 102 defines the disclosure of investments levels as follows:

- Level 1 – Inputs are based on quoted prices in active markets for identical instruments.



The Company's Level 1 investments consist of U.S. Treasuries, money market funds and equity securities traded in an active exchange market. The Company uses unadjusted quoted prices for identical instruments to measure fair value.

- Level 2 – Inputs are based on observable market data (other than quoted prices) or are derived from or corroborated by observable market data.

The Company's Level 2 investments include most of its 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. The Company measures fair value for the majority of its Level 2 investments 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.

Collateralised securities that is mortgage-backed and asset-backed securities (including collateralized loan obligations) are priced using indirect observable inputs including prices for similar assets and market corroborated inputs.

The Company is responsible for the prices used in its fair value measurements. The Company uses independent pricing services to assist itself in determining fair value of all of its Level 2 investments. The pricing services provide a single price or quote per security. The Company uses data provided by the Company's third party investment managers to value the remaining Level 2 investments. To validate that these quoted prices are reasonable estimates of fair value, the Company performs various quantitative and qualitative procedures, including:

- 1) Evaluation of the underlying methodologies;
- 2) Analysis of recent sales activity;
- 3) Analytical review of the Company's fair values against current market prices;
- 4) Comparison of the pricing services' fair value to other pricing services' fair value for the same investment.

No markets for the Company's investments were judged to be inactive at period end. Based on these procedures, the Company did not adjust the prices or quotes provided by its independent pricing services, third party investment managers as of 31 December 2017.

- Level 3 – Inputs are unobservable and not corroborated by market data.

The Group has no Level 3 securities.

#### *Participations and related undertakings*

The participations and related undertakings included within the Company's financial statements are in respect of the subsidiaries held by the Group holding company. These amounts are eliminated on consolidation in the assets of the Group. The investments in related undertakings are valued on an adjusted equity basis.

#### *Property (other than for own use)*

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. On an annual basis, the directors consider the open market valuation of the Group's land and buildings held as an investment. Should the valuation fall below its cost, the deficit is written off as impairment through the profit and loss account.

#### **D1 (2) – Goodwill**

Company Reconciliation from UK GAAP to Solvency II USD'000	UK GAAP	SII Valuation Adj Other	Solvency II
Goodwill	6,566	(6,566)	-

#### **Solvency II Reconciliation & Valuation**

Under UK GAAP Goodwill is stated at cost less accumulated amortisation and accumulated impairment expense and is amortised over its useful economic life on a straight line basis over 15 years.

For Solvency II Goodwill is reviewed to identify whether amounts are separable and if there is evidence of exchange of similar assets to indicate that they are saleable in the market place. As a result, Goodwill is valued at nil for Solvency II purposes. The Company has no Intangible Assets other than Goodwill.

### D1 (3) – Deferred Acquisition Costs

Company Reconciliation from UK GAAP to Solvency II USD'000	UK GAAP	SII Valuation Adj DAC & UPR	Solvency II
Deferred acquisition costs	75,071	(75,071)	-

#### Solvency II Reconciliation & Valuation

For UK GAAP, acquisition costs, which represent commission and other related expenses, are deferred over the period in which the related premiums are earned. For Solvency II valuation purposes, deferred acquisition costs are valued at nil at the balance sheet date.

### D1 (4) – Property, Plant and Equipment

Company Reconciliation from UK GAAP to Solvency II USD'000	UK GAAP	Solvency II
Property, plant & equipment held for own use	2,916	2,916

#### Solvency II Reconciliation

There are no Solvency II valuation adjustments to the Property, plant & equipment held for own use.

#### Valuation

The Company values Property, Plant and Equipment in the financial statements 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.

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.

For Solvency II purposes, the Directive states that Property, Plant and Equipment should be valued on a basis that reflects its fair value. The Company believes that the depreciated cost of Property, Plant and Equipment held at 31 December 2017 is a materially fair approximation for fair market value.

### D1 (5) – Receivables

Company Reconciliation from UK GAAP to Solvency II USD'000	UK GAAP	SII Valuation Adj Tech. Provisions	Solvency II
Insurance and intermediaries receivables	107,142	(83,619)	23,523
Reinsurance receivables	53,035	(26,422)	26,613
Receivables (trade, not insurance)	26,081	-	26,081
<b>Total receivables</b>	<b>186,258</b>	<b>(110,041)</b>	<b>76,217</b>

#### Solvency II Reconciliation

For UK GAAP, receivables which relates to outstanding premiums from policyholders are recognised in the financial statement as current assets. For Solvency II valuation the outstanding premiums not yet due from policyholders are reclassified to the technical provisions. The remaining balances are due or past due as at the reporting date.

#### Valuation

The insurance and intermediaries receivables balance represents premiums receivable due and past due once adjusted for Solvency II as noted above. The balances are all due within 12 months and their fair value is not considered to be different to their amortised cost so no further Solvency II adjustments are required.

The reinsurance receivables balance represents paid losses recoverable net of bad debt. The balances are all due within 12 months and their fair value is not considered to be different to their amortised cost so no Solvency II adjustment is required.

The trade receivables include various balances including inter-group receivables and tax. All amounts are due within 12 months and the UK GAAP values are considered to be appropriate fair value and are therefore do not need to be adjusted for Solvency II.

#### D1 (6) – Cash and cash equivalents

Company Reconciliation from UK GAAP to Solvency II USD'000	UK GAAP	SII Reclass Adj	Solvency II
Cash and cash equivalents	108,958	(61,099)	47,859

#### Solvency II Reconciliation & Valuation

Solvency II reporting requires distinction between cash that can (unrestricted) and cannot (restricted) be used to make payments until a specific maturity date and that are not exchangeable for currency or transferable deposits without any kind of significant restriction or penalty. The majority of the cash which has been reclassified to deposits is in relation to collateral arrangements on the Surety line of business.

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.

#### D1 (7) – Other Assets

Company Reconciliation from UK GAAP to Solvency II USD'000	UK GAAP	SII Reclass Adj	Solvency II
Any other assets, not elsewhere shown	8,586	(8,586)	-

#### Solvency II Reconciliation & Valuation

The \$8.6m Solvency II adjustment is in respect of the accrued interest on the bonds which is reclassified from prepayments and accrued interest in UK GAAP to investments under Solvency II.

#### D1 (8) – Other Matters

The Company has not provided any unlimited guarantees and does not have any off balance sheet assets.

## D2 - Technical Provisions

At 31 December 2017, the total value of net technical provisions was \$561.7m, which included \$45.7m in respect of the risk margin. The movement of UK GAAP Provisions to Solvency II net technical provisions was as follows:

Company Reconciliation from UK GAAP to Solvency II USD'000	UK GAAP	SII Valuation Adj Tech. Provisions	SII Valuation Adj DAC & UPR	Solvency II
Technical provisions – non-life	1,091,087	38,901	(306,236)	823,752
Reinsurance recoverables from non-life	(344,115)	27,441	54,611	(262,063)
Net technical provisions – non-life	746,972	66,342	(251,625)	561,689

### Solvency II Reconciliation

The main Solvency II valuation adjustment to the technical reserves is to reverse the unearned premium reserves as they are valued at nil under Solvency II. 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.

The other Solvency II valuation adjustment represents the net impact on the claims reserves of applying the Solvency II valuation methodology detailed below that include the reclassification of not yet due premiums from debtors and creditors.

### Valuation

The table below details the net technical provisions by Solvency II line of business by best estimate and risk margin.

Company Net Technical Provisions	Amounts in USD \$000s		
	Net Best Estimate	Risk Margin	Net Technical Provision
Medical expense insurance	4,113	107	4,220
Income protection insurance	2,735	137	2,872
Workers' compensation insurance	22,105	1,657	23,762
Marine, aviation and transport insurance	19,854	1,495	21,349
Fire and other damage to property insurance	10,082	5,150	15,232
General liability insurance	295,023	30,072	325,095
Credit and suretyship insurance	85,149	3,202	88,351
Assistance	10	-	10
Miscellaneous financial loss	593	29	622
Non-proportional health reinsurance	9,805	505	10,310
Non-proportional casualty reinsurance	46,835	5,573	52,408
Non-proportional marine, aviation and transport reinsurance	10,993	712	11,705
Non-proportional property reinsurance	8,713	(2,960)	5,753
Total	516,010	45,679	561,689

Technical Provisions are valued in accordance with Article 77 of the Solvency II Directive which states that the value of technical provisions shall be equal to the sum of the best estimate and a risk margin.

The actuarial function carries out the valuation of technical provisions and ensures continuous compliance with the requirements set out in Articles 75 to 86 regarding the calculation of technical provisions and the risks arising from this calculation.

The actuarial function's involvement in the whole reserving process allows us to opine that the technical provisions at 31 December 2017 are sufficient and the methods / assumptions used are appropriate given the nature, scale and complexity of the Company's risk profile.

Sufficiency in this context means that we are satisfied that the process for estimating technical provisions is thorough and proportionate, and the resulting amounts are within a reasonable range that might be calculated by a number of different qualified people using various reasonable methods and assumptions.

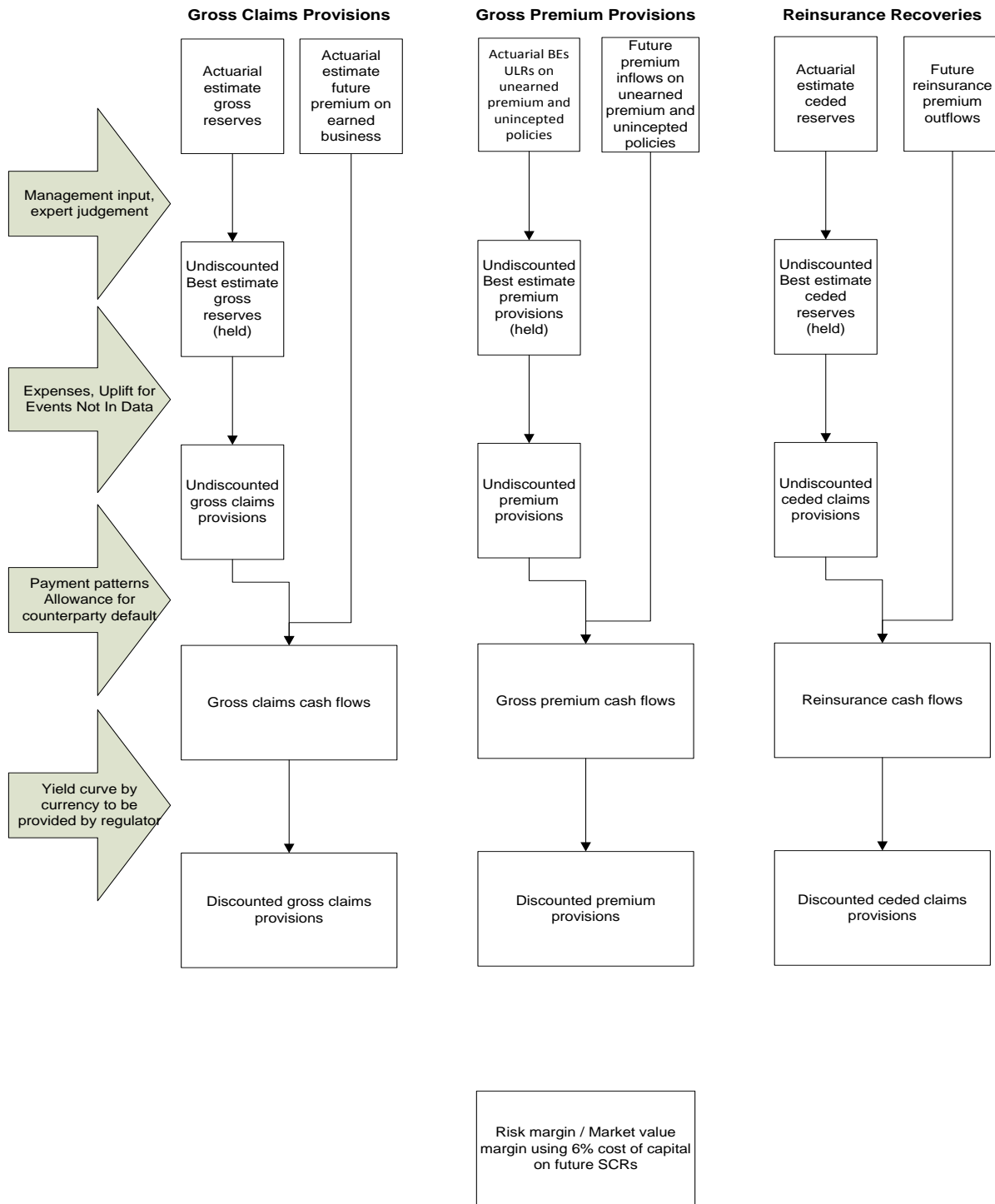
The methodologies used are consistent across all material lines of business and the key items are summarised below. In addition, we have included a heading looking at identified future enhancements.

Technical Provisions Calculation Overview

TMHCC International builds the Technical Provisions value from 3 components: i) The Undiscounted Best Estimates, ii) Discounting Credit; and iii) Risk Margin.

The process is summarised in the flowchart below. Further details are found in the remaining sub-sections.

By: Line of business(TMHCC, SII and Lloyd's risk code); Type of loss (attritional, large, cat); Currency, Geographical Area



### *Undiscounted Best Estimate Claims Provisions*

As part of the Group's current reserving process, the starting point for valuing Solvency II claims provisions is the actuarial best estimate of provisions for claims including outstanding claims, IBNR and allocated loss adjustment expense.

For the purpose of our analysis, we subdivide the data using TMHCC International lines of business, where segmentation is decided subject to similar coverage, reporting patterns, underwriting controls, claims handling and homogeneity of risks. These also reflect the way its business is underwritten, reported and managed. Further details may be found under the segmentation heading below.

In general, each line of business is written across multiple TMHCC International entities. The default position is that an analysis is carried out gross and net of reinsurance and that results be reported at both these levels. In some cases, due to the lack of reinsurance or its immaterial nature, explicit allowance is not made for reinsurance.

Full analyses of reserves take place at least annually. During the full analyses, attritional claims and large losses gross and net of reinsurance are projected to ultimate using the following four standard actuarial methods:

- 1) Paid Chain Ladder ('PCL');
- 2) Incurred Chain Ladder ('ICL');
- 3) Incurred Bornhuetter-Ferguson ('IBF');
- 4) Loss Ratio method ('LR').

The method selected depends on the accident or underwriting year, gross or net of reinsurance perspective and the line of business. This is documented within the reserving files and analysis spreadsheets. Generally for more developed years, the ICL is used and for less developed years, the IBF method is used. For the years where the IBF or LR is used, the ultimate claim projected is sensitive to the Initial Expected Ultimate Loss Ratio ('IEULR') assumption (also referred to as the 'prior loss ratio' assumption). TMHCC International bases its IEULRs on historical rebased loss ratios, taking into account premium rate changes and claims inflation.

### *Undiscounted Best Estimate Premium Provisions*

The starting point of the premium provisions is the unearned premium reserve (UPR) and, for bound but not incepted ('BBNI'), an estimate of the premium relating to policies that have an inception date post the valuation date and a bound date pre the valuation date. TMHCC International uses historical and budget data to estimate the volume of premium related to BBNI policies. This approach allows for policies bound before the valuation date but which have not yet been captured within the policy underwriting systems at the time of calculating the Technical Provisions due to typical processing delays.

For lines of business that undergo actuarial review as part of the Group's reserving process the undiscounted premium provision is calculated by applying the relevant actuarial best estimate ultimate loss ratios to the UPR and the BBNI premium amounts. Where no actuarial review has been undertaken budgeted loss ratios are assumed to represent this best estimate.

The actuarial best estimate ultimate loss ratios arise from actuarial reserving analysis and correspond to a central expectation based on relevant historical experience on prior years and adjusted where appropriate for changes in mix of business and anticipated premium rate movements and loss trends. Where the actuarial best estimate loss ratio does not include provision for large losses or cats, we apply loads consistent with the internal model large loss and catastrophe parameters, to account for the future occurrence of these events.

### *Undiscounted Best Estimate Reinsurance Provisions*

Reinsurance recoveries on claims provisions are calculated directly from the estimated cash flows from current ceded claims. Reinsurance recoveries on premium provisions are estimated differently depending on the type of reinsurance.

For Lines of Business ('LOBs') with quota share ('QS') reinsurance, the ceded cash flows are calculated by applying the ceded percentage to the estimated gross claim cash flow.

For LOBs with excess of loss reinsurance, there will be cessions on large and catastrophe losses. Identification of the reinsurance contracts that respond to the gross losses in the premium provisions is an important aspect of estimating reinsurance recoveries as well as the associated cost of this reinsurance cover. The key considerations are the basis of the reinsurance (losses occurring or risks-attaching), the inception date of the reinsurance contract and its binding status at the valuation date.

Reinsurance contracts that have already incepted will respond to losses, regardless of the basis. As such we make full provision for any reinsurance premiums payable in future and the associated reinsurance recoveries.

Losses-occurring ('LOD') reinsurance contracts that incept in the future will respond to losses that occur during the reinsurance policy period.

Unless the reinsurance contract is already bound at the valuation date, we include a portion of both reinsurance premiums payable and losses ceded to future LOD reinsurance contracts to the extent that the cover relates to existing inwards business.

Risks-attaching ('RAD') reinsurance contracts that incept in the future will respond to losses incurred on policies that incept during the reinsurance treaty period only.

The BBNI inward policies, included in the technical provisions as at 31 December 2017, will attach to reinsurance treaties incepting during 2018. A corresponding portion of the cost of this reinsurance and expected ceded losses is included in the technical provisions.

In summary, the treatment of reinsurance premiums and recoveries is as follows:

Contract status at point of valuation	Reinsurance premiums	Reinsurance recoveries
<b>Incepted, bound</b>	Future premiums due allowed for in full	Full allowance for expected future recoveries associated with losses arising from all incepted as well as bound-but-not-incepted inwards business that falls within scope of the technical provisions (where the purchase of reinsurance is subject to future management actions it is assumed that cover will be renewed on existing terms)
<b>Unincepted, bound</b>		
<b>Unincepted, not bound</b>	Allow for a portion of expected premiums payable under such reinsurance contract(s) relating to the run-off of existing incepted and bound-but-not-incepted inwards business	

#### *Events Not In Data (ENIDs)*

Parameterization of models for estimating mean claims reserves using historic data will only allow for the scale of events that have been observed within the history. An ENID loading ensures consideration of all possible future outcomes and so allows the 'true' mean to be determined.

At least three types of events should be considered:

- Outstanding events which could go one way or another with a material change in the reserves determined by the outcome, e.g. court cases establishing liability;
- Events which will affect only the premium provision, e.g. future catastrophes; and
- Events which will affect both the premium provision and claims provision, e.g. future latent claims.

We add an explicit load to the best estimate for ENIDs. The approach assumes that the distributions and Coefficients of Variation ('CVs') selected as part of the internal model parameterization represent truncated distributions. The level of realistically foreseeable events for this purpose is taken as 1-in-40/97.5%, noting that this is broadly in line with a once-in-a-career return period. An uplift factor is derived as the ratio of the 'true mean' to the 'mean only including realistically foreseeable events'. This factor is then scaled in line with the results of a qualitative scoring framework which assesses each line of business's relative exposure to ENIDs.

The explicit provision for ENIDs increases total technical provisions by around 1%-3% depending on business mix.

The cat and large loss loads applied to prospective business should be considered in conjunction with the explicit ENID load. Cat and large losses in the internal model are parameterized to best capture the prospective risk. The parameterization does not rely solely on historical losses but also on the nature and scale of current risk exposures. The cat and large losses will model events not seen in TMHCC International's history. They can therefore be considered as contributing to bringing technical provisions from the 'foreseeable events' basis to 'all possible outcomes' required under Solvency II.

### *Counterparty Default Risk*

The traditional reinsurer bad debt provision is generally increased to include potential losses on recoveries on premium provisions, and any other counterparties. For the current year, and consistent with the internal model assumptions, we have concluded that counterparty default risk on policyholder debtors, deposits with ceding institutions, and letters of credit is not material and thus is not included in technical provisions. These assumptions are consistent with the prior year.

### *Cash Flows and Discounting*

Solvency II technical provisions are valued with consideration of the time value of money, and thus the potential investment income on reserves decreases the amounts of the liabilities. Cash flows are calculated by applying appropriate payment patterns to the undiscounted best estimates.

Payment patterns are derived using triangles of relevant historical paid losses. Where there is insufficient data to calculate a credible payment pattern from internal data, payment patterns from a similar line of business, adjusted or unadjusted, may be used or the payment pattern exhibited by a suitable benchmark dataset, such as the Lloyd's Market Association risk code triangles, may be used. Payment patterns may differ according to year of loss, whether the claims are attritional / large / cat, or relate to gross or ceded cash flows.

The payment patterns are fitted to quarterly development data and we discount cash flows assuming payments take place at the end of each quarter.

The Group uses the yield curves as provided by EIOPA. These are applied to the best estimates of undiscounted annual cash flows by currency. It should be noted that the Economic Scenario Generator ('ESG') is not used within the technical provision process.

### *Financial Guarantees and Contractual Options*

All guarantees and options were identified and, after discussion between underwriters, management and actuarial, have been deemed immaterial and therefore not included in the calculation of technical provisions. Given the materiality, this is a 3 year process, with the next review due in 2018. The approach is the same as that used in the previous year.

### *Assumptions about policyholder behaviour*

The two main areas of policyholder behaviour considered relate to lapses and renewal rates.

The valuation of the technical provisions assumes that the policies will remain in force including any policies where the policyholder has an option to lapse or the Group has an option to lapse. In the expected course of events the Group does not operate a policy of cancelling contracts and historical experience implies a best estimate based on no policyholder lapses. This assumption is unchanged since the last reporting period.

### *Risk Margin*

Article 37 of the Delegated Acts sets out the formula which should be used to calculate the risk margin.

The risk margin is calculated as a part of technical provisions in order to ensure that the value of technical provisions is equivalent to the amount that an undertaking would be expected to require in order to take over and meet the transferred obligations.

The method used involves the following three step process:

- Calculation of SCRs that are required to support the technical provisions at time=0 and time=1.
- For estimating SCRs at t=2 onwards, we assume that future SCRs are proportional to the best estimate technical provision for the relevant year, including a cumulative uplift to allow for the increase in variability relative to the best estimate provisions. This is an appropriate simplification because the Company's exposure to catastrophe risk and underwriting risk is only significant at t=0 due to potential catastrophe losses and expected future premium income over the one year time horizon starting at t=0. The SCR at t=1 is therefore considered suitably representative of the run-off risk profile in which catastrophe and other underwriting risk is expired.
- The projected SCRs are then multiplied by the cost of capital of 6% p.a. (as put forward by EIOPA) to determine the cost of providing this amount of eligible own funds. This cost is discounted by the risk-free rate and the sum of the discounted cost of capital for each future year over the lifetime of the business giving the total risk margin.



### *Key options and guarantees within the calculation of the technical provisions*

All guarantees and options were identified and, after discussion between underwriters, management and actuarial, have been deemed immaterial and therefore not included in the calculation of technical provisions. Given the materiality, this is a 3 year process, with the next review due in 2018. The approach is the same as that used in the previous year.

### *Overview of material changes in the level of TPs since last reporting period*

The current results and those at last year end are set out below.

<b>The Company's NET Technical Provisions: Comparison to Prior Valuations (USD'000)</b>			
	<b>31 December 2017 (2017 YE FX Rates)</b>	<b>31 December 2016 (2017 YE FX Rates)</b>	<b>31 December 2016 (2016 YE FX Rates)</b>
Claims Provisions	442,297	425,879	392,751
Premium Provisions	73,713	104,942	99,593
Total excluding Risk Margin	516,010	530,821	492,344
Risk Margin	45,679	46,172	42,825
<b>Total including Risk Margin</b>	<b>561,689</b>	<b>576,993</b>	<b>535,169</b>

Between 31 December 2016 and 31 December 2017, the technical provisions (excluding risk margin) increased by \$14.8m, after allowing for FX rate movements. The claims provisions have increased by \$16.4m and premium provisions decreased by \$31.2m. The claims provisions increase was driven by movements in reserve on Financial Lines and PI UK lines. The premium provisions decrease is mainly due to a decrease in unearned premium provisions, across several lines, driven by an increase in future premium (as represented by current balances), partially offset by an increase in the UK GAAP unearned premium reserve, and hence in provisions for claims and expenses related to this.

The risk margin has remained stable in percentage terms and absolute, after allowing for FX rate movements.

### *Segmentation*

Calculation of technical provisions for application of the standard formula and for statutory reporting requires recasting of the internal LOB segmentation into Solvency II line of business. In many cases, the Solvency II LOB is composed of multiple TMHCC International LOBs, or subsets thereof. TMHCC International LOBs are allocated to Solvency II line of business based on policy master class coding, Lloyds risk coding (where available) and transaction type. This allows for the unbundling of contracts into the corresponding Solvency II LOBs. The table below summarizes the mapping of Solvency II and the Company's LOBs. The mapping is unchanged from the previous year.

Solvency II Line of Business	HCC Line of Business
Direct Credit and Surety	Credit UK, Credit US, HCCE All Other, HCCE Decennial, HCCE Jewelers Block, HCCE Surety, HCCE Surety Co-ops, Surety UK
Direct General Liability	CAR, Employers Liability, HCC Global, Medmal HCCE, PI HCCE, PI UK, PL UK&EIRE, Satellite, Tour Operators
Direct Income Protection	A&H, Disability Sports, HCC Global
Direct Marine Aviation Transport	Energy, Marine Hull, Satellite
Direct Medical Expense	A&H, MIS
Direct Miscellaneous Financial Loss	Contingency, Energy, HCC Global, HCCE Jewelers Block, HCCE Surety, Property
Direct Property Fire and AOP	CAR, Employers Liability, HCCE All Other, PI UK, Property
Direct Workers Compensation	CAR, Employers Liability, PI UK, PL UK&EIRE
Non-proportional casualty reinsurance	HCC Global, PI UK, Satellite
Non-proportional health reinsurance	A&H, Disability Sports, HCC Global
Non-proportional marine, aviation and transport reinsurance	Energy, Marine Hull, Marine XL
Non-proportional property reinsurance	A&H, Contingency, Credit US, HCCE Surety, Property, Property Treaty, Surety UK
Prop RI Income Protection	A&H
Prop RI Medical Expense	A&H
Prop RI Property Fire and AOP	Property Treaty
Direct Assistance	A&H
Prop RI Assistance	A&H

#### *Internal data improvements, procedural changes and significant deficiencies*

One of the operational risks faced by the Company is that resulting from the use of poor quality data in processes including reserving and technical provisions. In order to mitigate this risk across the European insurance entities, TMHCC International agreed a common Data Governance Policy in late 2011 which sets out how the organisation will document the data used to perform key business processes and ensure that it is fit for purpose. During 2012 this Data Governance Policy was applied to the Actuarial Reserving and Calculation of Technical Provisions, as they are critical business processes.

In order to confirm that the data used to drive these processes is fit for purpose the Company has assessed data quality using the criteria we have adopted for Solvency II (appropriateness, completeness, consistency & accuracy) following the process described below:

- Produced a data-flow chart for each business process that shows the data-sets that flow into and out of the process, along with the reconciliation points that ensure data is consistent throughout the process.
- Documented at field level, the data-sets used to drive each business process and recorded this information in the Data Directory.
- Assigned each data set to a subject matter expert and asked them to complete a standard data quality template containing an assessment as to whether that data set is complete & appropriate for its intended business usage.
- Developed a series of automated reconciliation reports that highlight any data inconsistencies between IT systems.
- Introduced compliance procedures to ensure that all relevant manual reconciliations are completed whenever a specific business process is performed.
- Introduced audit procedures to assess, report on and remedy the accuracy of those data elements that are material to the organization and are manually entered into systems.

Further detail of the implementation of the above processes has been documented within 'Internal Model Data Policy'.

Having applied the Data Governance Policy as discussed above the organisation believes that it has significantly reduced the residual risk relating to the use of poor quality data. The process of extracting and processing the TP data was significantly streamlined during 2015 through the development of a Pillar 3 data mart dedicated to Solvency II reporting. The data mart is a joint initiative between the Business Intelligence and Finance teams with significant support provided by the Actuarial Function during its development.

One area of limitation has been identified, which relates to the lack of IBNRs being available at the required level of granularity (eg, origin period / currency / risk code combinations). This is remediated by incorporating allocation algorithms in the Pillar 3 data mart.

#### *Group adjustments to individual technical provisions*

The calculation of the Group technical provisions is identical to the Company and includes no adjustments or eliminations.

#### *Third country insurance and reinsurance undertakings*

The Company's Branches in Europe are mainly in the EU. There are two that are not. Switzerland has equivalence under Solvency II and Norway which has enacted the Solvency II regime.

#### *Material changes to assumptions or methods since the prior period*

As part of the Solvency II technical provision process, various actual versus expected ('A v E') analyses are undertaken, including comparison of projected technical provisions with actual technical provisions and comparisons line by line (on a GAAP basis).

The A v E analysis did not lead us to make any adjustments to our assessment of the appropriateness, accuracy and completeness of the data nor to the methodologies applied. In addition, the A v E analysis did not lead us to make any adjustments to the actuarial selected ultimates nor the assumptions used, beyond what would normally be expected to filter through during parameter reviews dependent on historical data.

#### *Description of the level of uncertainty associated with the value of technical provisions*

Any estimates of loss and ALAE liabilities are inherently uncertain. In our judgment, we have employed techniques and assumptions that are appropriate for the purposes of this analysis, and the conclusions presented herein are reasonable, given the information currently available. However, it should be recognized that the actual emergence of loss and ALAE amounts will likely deviate, perhaps materially, from our estimates.

The Company's reserves are dominated by Financial Lines comprising a sizeable portfolio of International D&O business. These lines tend to be both volatile and long-tailed. In addition, the Company writes a small Employers' Liability book, which is exposed to potential latent disease claims.

Our Solvency II premium provision projections cover unexpired risks, and any period of future exposure is necessarily subject to a higher degree of uncertainty. This is especially the case for catastrophe-exposed classes of business, which are characterised by losses of an inherently uncertain low-frequency/high-severity nature.

Our selected point estimates are central estimates in the sense that they are not deliberately biased upwards or downwards. They do not necessarily represent a mid-point of the range of possible outcomes, as the potential for adverse movement generally exceeds the potential for favourable movement.

We have undertaken some quantitative analysis around the Technical Provisions to investigate the uncertainty. The conclusions of the analysis, which were generally the same as those observed last year for HCCII, were:

- The technical provisions are most sensitive to the earned reserve levels and the loss ratios assumed in the unearned provisions. For example, using 25<sup>th</sup> and 75<sup>th</sup> percentiles from the underlying reserve distribution, rather than best estimate would change the technical provisions in the region of 10% to 15%.
- The technical provisions are also sensitive to the discount rate used, to the extent that if discount rates returned to the levels seen before the financial crisis, this would have an impact on the technical provisions in the region of 5% to 10%.
- The technical provisions are not so sensitive to expense overruns or changes to the risk margin calculation.

#### *Transitional provisions on technical provisions, matching adjustment and volatility adjustment*

The Company does not have any transitional provisions on technical provisions, nor make any matching or volatility adjustments.

#### *The use of simplified approaches*

A simplified approach is used within the Risk Margin calculation. Further details were provided in the Risk Margin section.

*Assumptions about future management actions*

The Company's TPs include one future management action relating to Reinsurance Structure, whereby it is assumed reinsurance that is in-force at the beginning of the year is maintained with regard to structure and cost.

This will impact the unearned and unincurred components of the TPs only; known claims will have attached to prior reinsurance, if applicable.

The secondary risk associated with this reinsurance - reinsurer credit risk - is also included in the TPs.

*Differences to UK GAAP Technical Provisions*

Differences between the current GAAP reserves and Solvency II technical provisions can be broken down into the following drivers:

- Stripping out booked reserve margins (decrease)
- Loading for events not in data (increase)
- Change of expense basis (increase)
- Adjustments to earned provisions, including future development in earned premium where appropriate (usually decrease)
- Emergence of profit on future premium, including removal of 100% UPR (usually decrease)
- Bound but not incepted policies (usually decrease)
- Discounting (decrease)
- Risk margin (increase)

The waterfall chart below illustrates the impact of each of these on the Company's GAAP and Solvency II reporting positions, followed by a table that provides the underlying figures for each component:



Reconciliation of Company's Net Technical Provisions: UK GAAP to Solvency II at 31 December 2017 (\$'000)	
<b>UK GAAP Technical Provisions</b>	<b>746,972</b>
Removal of booked reserve margins	(49,952)
Allowance for events not in data (binary events)	14,701
Change of expense basis	31,727
Adjustments to earned provisions	2,038
Removal of unearned UK GAAP provisions	(251,628)
Future premium iro unearned incepted business	(85,612)
Projected losses arising from UPR	123,610
Future premium iro unaccepted business	(23,202)
Projected losses arising from unaccepted contracts	28,804
Discounting credit	(21,448)
Inclusion of risk margin	45,679
<b>SII Technical Provisions</b>	<b>561,689</b>

Except for the explicit margin of prudence, all items are a function of the Solvency II valuation requirements. All items are in line with expectation, both regard to direction and quantum.

### D3 – Other Liabilities

The Solvency II adjustments and valuation approach for each liability group in the above balance sheet order are detailed below with the exception of the technical provisions that are discussed in section D2.

#### D3 (1) – Deferred Tax

Company Reconciliation from UK GAAP to Solvency II USD'000	UK GAAP	SII Valuation Adj Other	Solvency II
Deferred tax liabilities	10,605	6,330	16,935

#### Solvency II Reconciliation

The Solvency II valuation adjustment to the deferred tax liabilities represents the net impact of all the Solvency II valuation adjustments. The valuation principles for deferred tax under Solvency II are consistent with the UK GAAP approach used to prepare the financial statements.

#### Valuation

Deferred tax under UK GAAP 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. The deferred tax liability is comprised principally of tax payable over the remaining five years resulting from the reversal of the equalisation reserve at 1 January 2016.

#### D3 (2) – Payables

Company Reconciliation from UK GAAP to Solvency II USD'000	UK GAAP	SII Valuation Adj Tech. Provisions	Solvency II
Insurance & intermediaries payables	11,313	-	11,313
Reinsurance payables	52,773	(23,133)	29,640
<b>Total payables</b>	<b>64,086</b>	<b>(23,133)</b>	<b>40,953</b>

#### Solvency II Reconciliation

The Solvency II valuation adjustments to Insurance & intermediaries payables reflect not yet due balances that are reclassified to the technical provisions. The remaining balances are due or past due.

#### Valuation

The insurance and intermediaries payables represent premiums, commissions and claims payable. The balances are all due within 12 months and are considered to be stated at fair value that is not considered to be different to their amortised cost so no further Solvency II adjustment is required.

The reinsurance payables represent reinsurance premiums and commissions payable past due. All balances are due within 12 months and, once adjusted for Solvency II as noted above, their fair value is not considered to be different to their amortised cost so no additional Solvency II adjustment is required.

### D3 (3) – Other liabilities

Company Reconciliation from UK GAAP to Solvency II USD'000	UK GAAP	SII Valuation Adj DAC & UPR	Solvency II
Any other liabilities, not elsewhere shown	116,620	(10,007)	106,613

#### Solvency II Reconciliation

The Solvency II adjustment is in respect of reinsurance acquisition costs, which represent commission and other related expenses that are deferred over the period in which the related premiums are earned under UK GAAP. For Solvency II valuation purposes, deferred acquisition costs are valued at nil at the balance sheet date.

#### Valuation

The remainder of the other liabilities includes obligations relating to Surety collateral, accrued premium taxes, settlements for investment purchases and staff costs and tax accruals. These balances are valued at fair value under both UK GAAP and Solvency II.

### D3 (4) – Other Provisions and Contingent Liabilities

The Company does not have any Other Provisions and does not have any material Contingent Liabilities outside of the normal course of insurance.

### D3 (5) – Employee benefits

The Company operates a defined contribution pension scheme to which it contributes a percentage salary of an employee. There are no unpaid employer contributions.

#### *D4 – Alternative methods for valuation*

The Company has not applied any alternative methods of valuation.

#### *D5 – Any other information*

There is no additional information that requires disclosure.

## Section E – Capital Management

The Group is a single shareholder entity. It has no debt financing nor does it have any material plans to issue new shares in the short or medium term. The Group's capital planning process is dynamic and forward-looking and is informed by the output from its risk management activities and the Own Risk and Solvency Assessment process. The Group and the Company carry an S&P rating of AA- and the Company benefits from a parental guarantee provided by HCC Insurance Holdings, Inc.

As such, capital planning activities take into account current and anticipated changes in the Group's risk profile, such as those reflected in its three year business plan, and forecasting the related impact on capital. In addition, as part of its capital planning, the Group integrates projected capital needs with its business planning and financial forecasting processes.

In order to ensure the maintenance of appropriate capital level at all times, the Group has defined a specific capital risk appetite with thresholds and limits that shall trigger actions, including the source of capital and/or associated corrective actions. These appetites have been developed in line with regulatory requirements under the Solvency II regime whilst also including an appropriate level of prudence over and above minimum levels. These are monitored through the Risk and Capital Management Committee on a regular basis.

Own funds are comprised of items on the balance sheet, which are referred to as basic own funds consisting of paid-up ordinary share capital, retained earnings and a reconciliation reserve. There are no transitional provisions or ancillary own funds for the Group or Solo entity.

### E1 – Own Funds

#### Group Own Funds

At 31 December 2017, the own funds held by HCC Insurance Holdings (International) Limited (the Group) were \$708.8m (2016: \$626.5m). All own funds qualify as Tier 1 core capital and are unrestricted. The Group's common equity consisted of share capital totaling \$249.2m (2016: \$249.2m) and retained earnings and other reserves totaling \$459.6m (2016: \$377.3m).

The Group's policy is to maintain all Group own funds in core Tier 1 capital and the reconciliation reserve is classified as Tier 1 capital in accordance with the Solvency II regulations and calculated as follows:

Reconciliation reserve	\$'000 2017	\$'000 2016
Excess of assets over liabilities	708,825	626,490
less:		
Own Share Capital	249,237	249,237
Share premium	-	-
Deferred Tax Assets	-	-
Reconciliation reserve	459,588	377,253

#### Group Eligible Own Funds

The classification into tiers is relevant for the determination of own funds that are eligible for covering the solvency capital requirement and the regulatory minimum consolidated group solvency capital requirement.

Available Funds 31 Dec 2017	Total \$'000	Tier 1 unrestricted \$'000	Tier 1 restricted \$'000	Tier 2 \$'000	Tier 3 \$'000
Total eligible funds to meet the SCR	708,825	708,825	-	-	-
Total eligible funds to meet the minimum consolidated group SCR	708,825	708,825	-	-	-



The table below represents the ratios of eligible own funds that the Group holds to cover the Solvency Capital requirement and the Minimum Consolidated Group SCR:

Eligible own funds to cover capital requirements	\$'000 2017	\$'000 2016
Solvency II Net Assets	708,825	626,490
Standard Formula Solvency Capital Requirement ('SF SCR')	341,572	322,882
Minimum consolidated group SCR/ Minimum Capital Requirement ('MCR')	121,364	116,254
Excess Net Assets over SF SCR	367,253	303,608
Excess Net Assets over Minimum consolidated group SCR	587,461	510,236
Solvency Ratio (i.e. SII Net Assets / SF SCR)	208%	194%
SII Net Assets as a Percentage of minimum consolidated group SCR	584%	539%

The growth in the Solvency Capital requirement in 2017 predominately reflects the increase in business volumes. The improved solvency ratio is a result of additional retained earnings (own funds) generated over the course of the year, with no dividends paid in the year.

#### *Solo Own Funds*

At 31 December 2017, the own funds held by HCC International Insurance Company plc were \$703.5m (2016: \$626.5m). All own funds qualify as Tier 1 core capital and are unrestricted. The Company's common equity consisted of share capital totaling \$233.2m (2016: \$233.2m) and retained earnings and other reserves totaling \$470.3m (2016: \$388.7m).

The Company's policy is to maintain all Company own funds in core Tier 1 capital and the reconciliation reserve is classified as Tier 1 capital in accordance with the Solvency II regulations and calculated as follows:-

Reconciliation reserve	\$'000 2017	\$'000 2016
Excess of assets over liabilities	703,544	621,946
less:		
Own Share Capital	233,242	233,242
Share premium	-	-
Deferred Tax Assets	-	-
Reconciliation reserve	470,302	388,704

#### *Solo Eligible Own Funds*

The classification into tiers is relevant for the determination of own funds that are eligible for covering the solvency capital requirement and the regulatory minimum capital requirement. The table below represents for the SCR and MCR with respect to tiers:

Available Funds 31 Dec 2017	Total \$'000	Tier 1 - unrestricted \$'000	Tier 1 - restricted \$'000	Tier 2 \$'000	Tier 3 \$'000
Total eligible funds to meet the <b>SCR</b>	703,544	703,544	-	-	-
Total eligible funds to meet the <b>MCR</b>	703,544	703,544	-	-	-

The table below represents the ratio of eligible own funds that the company holds to cover the Solvency Capital requirement and Minimum Capital Requirement:

Eligible own funds to cover capital requirements	\$'000 2017	\$'000 2016
Solvency II Net Assets	703,544	621,946
Standard Formula Solvency Capital Requirement ('SF SCR')	340,994	321,886
Minimum Capital Requirement ('MCR')	121,364	116,254
Excess Net Assets over SF SCR	362,550	300,060
Excess Net Assets over MCR	582,180	505,692
Solvency Ratio (i.e. SII Net Assets / SF SCR)	206%	193%
SII Net Assets as a Percentage of MCR	580%	535%

The growth in the Solvency Capital requirement in 2017 predominately reflects the increase in business volumes. The improved solvency ratio is a result of additional retained earnings (own funds) generated over the course of the year, with no dividends paid in the year.

*Material differences between equity in the financial statements and the excess of assets over liabilities*

Assets and liabilities are calculated differently between Solvency II and UK GAAP resulting in reclassifications and differences in valuation including:

- Deferred acquisition costs are not recognised under Solvency II;
- Intangibles are disallowed;
- Technical provisions are calculated on a discounted best estimate basis;
- Deferred tax changes due to valuation differences under Solvency II.

The differences arising from the change in valuation are reported in the table below:

Excess of Assets over Liabilities - Attribution of Valuation Differences 31 December 2017	HCC Insurance Holdings (Int'l) - Group \$'000	HCC International Insurance Co - Solo \$'000
Arising from SII asset valuations	(273,838)	(273,729)
Arising from SII technical provisions	(267,335)	(267,335)
Arising from SII other liabilities	(26,810)	(26,810)
Total of reserves and retained earnings from financial statements	439,170	449,887
<b>Reserves from financial statements adjusted for Solvency II valuation differences</b>	<b>459,588</b>	<b>470,302</b>
Ordinary share capital	249,237	233,242
<b>Excess assets over liabilities</b>	<b>708,825</b>	<b>703,544</b>
Less: Foreseeable dividends	-	-
Add: Subordinated liabilities	-	-
<b>Excess assets over liabilities</b>	<b>708,825</b>	<b>703,544</b>
Add: Letters of credit	-	-
<b>Total own funds</b>	<b>708,825</b>	<b>703,544</b>

## E2 – Solvency Capital Requirements and Minimum Capital Requirements

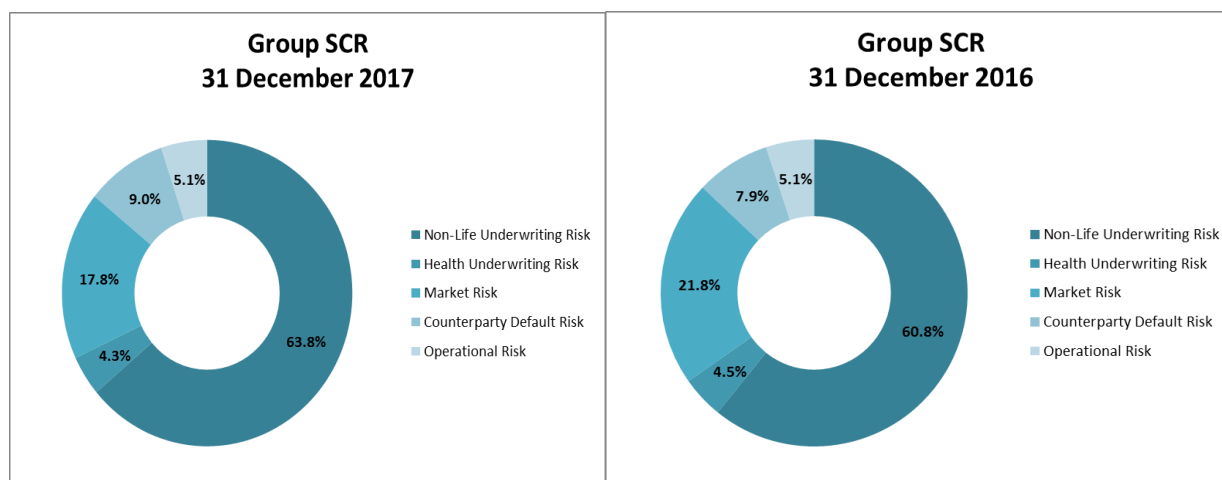
### Group Solvency Requirement

At 31 December 2017, the Solvency Capital Requirement of HCC Insurance Holdings (International) Limited was \$341.6m. The Solvency Capital Requirement is calculated as set out in Article 336 of the Delegated Acts.

The Group has assessed the appropriateness of the Solvency Capital Requirement as calculated using the Standard Formula.

The Solvency Capital Requirement's key Risk Modules for the Group are set out in the table below and shown in the diagram before diversification credit:

Capital Requirement for each Risk Module (\$'000)	Net Solvency Capital requirements (2017)	Net Solvency Capital requirements (2016)
Non-Life Underwriting Risk	290,705	267,662
Health Underwriting Risk	19,410	19,592
Market Risk	81,328	95,975
Counterparty Default Risk	40,971	34,644
Diversification Credit	(86,345)	(90,005)
Operational Risk	23,342	22,335
Pre Deferred Tax SF SCR	369,411	350,203
Loss Absorbing Capacity of Deferred Tax	(27,839)	(27,321)
<b>Final SF SCR</b>	<b>341,572</b>	<b>322,882</b>



The breakdown of the SCR into its underlying risk categories remains broadly similar from 31 December 2016 to 31 December 2017. The increase in SF SCR mainly arises from the additional business written in 2017.

The overall Minimum Consolidated Group SCR of \$121.4m (2016: \$116.3m) is calculated on the net premiums due to the group during the twelve months ending 31 December 2017 and the net technical provisions, excluding risk margin, as at 31 December 2017, represented by:

Overall Minimum Consolidated Group SCR	\$000 (2017)	\$000 (2016)
Linear MCR	121,364	116,254
SCR	341,572	321,886
MCR cap	153,558	144,849
MCR floor	85,310	80,472
Combined MCR	121,364	116,254
Absolute floor of the MCR	4,306	4,050
<b>Minimum Capital Requirement</b>	<b>121,364</b>	<b>116,254</b>

There have been no periods of non-compliance or material changes with the Solvency Capital Requirement or the Minimum Consolidated Group Solvency Capital Requirement during the year.

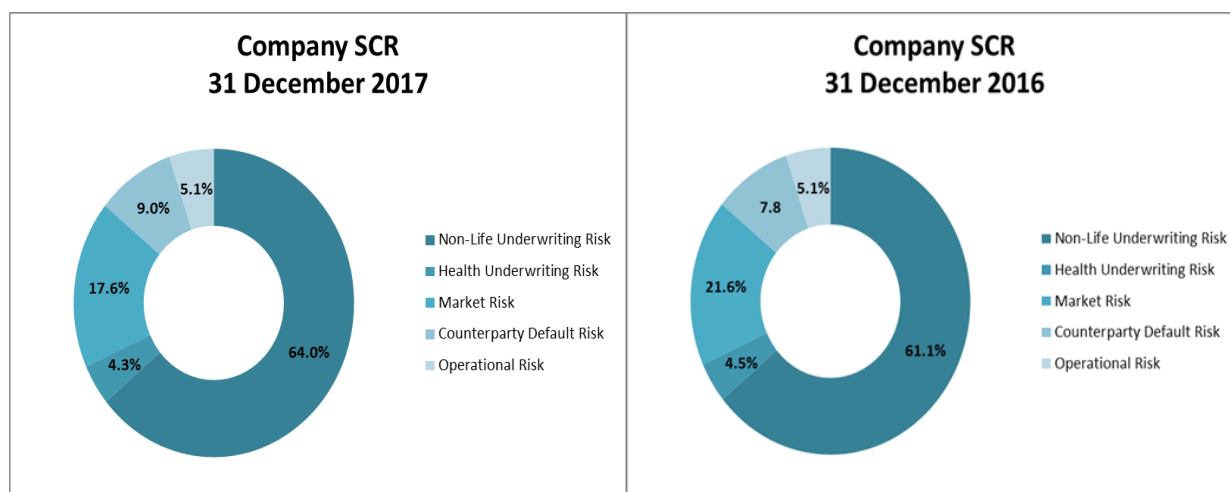
#### *Solo Solvency Requirement*

At 31 December 2017, the Solvency Capital Requirement of the Company is \$341.0m (2016: \$321.9m). The Solvency Capital Requirement is calculated using the Standard Formula. The Company does not apply any simplifications or undertaking specific parameters in the calculation.

The Company has assessed the appropriateness of the Solvency Capital Requirement as calculated using the Standard Formula.

The Solvency Capital Requirement's key Risk Modules for the Company are set out in the diagram below before Diversification Credit:

Capital Requirement for each Risk Module (\$'000)	Net Solvency Capital requirements (2017)	Net Solvency Capital requirements (2016)
Non-Life Underwriting Risk	290,705	267,662
Health Underwriting Risk	19,410	19,592
Market Risk	80,210	94,515
Counterparty Default Risk	40,873	34,291
Diversification Credit	(85,734)	(89,188)
Operational Risk	23,342	22,335
Pre Deferred Tax SF SCR	368,806	349,207
Loss Absorbing Capacity of Deferred Tax	(27,812)	(27,321)
<b>Final SF SCR</b>	<b>340,994</b>	<b>321,886</b>



The breakdown of the SCR into its underlying risk categories remains broadly similar from 31 December 2016 to 31 December 2017. The increase in SF SCR mainly arises from the additional business written in 2017.

The Overall Minimum Capital Requirement for the Company of \$121.3m (2016: \$116.3m) is calculated on the net premiums due to the Company during the twelve months ending 31 December 2017 and the net technical provisions, excluding risk margin, as at 31 December 2017, represented by the tables below:

Company MCR Calculation	\$'000 2017	\$'000 2016
Linear MCR	121,364	116,254
SCR	340,994	321,886
MCR cap	153,447	144,849
MCR floor	85,249	80,472
Combined MCR	121,364	116,254
Absolute floor of the MCR	4,306	4,050
<b>Minimum Capital Requirement</b>	<b>121,364</b>	<b>116,254</b>

Calculation of MCR (inputs) \$'000 31 December 2017	Net (of reinsurance / SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
Medical expense insurance and proportional reinsurance	4,113	26,880
Income protection insurance and proportional reinsurance	2,735	4,423
Workers' compensation insurance and proportional reinsurance	22,105	9,579
Motor vehicle liability insurance and proportional reinsurance	-	-
Other motor insurance and proportional reinsurance	-	-
Marine, aviation and transport insurance and proportional reinsurance	19,854	18,848
Fire and other damage to property insurance and proportional reinsurance	10,082	8,072
General liability insurance and proportional reinsurance	295,023	166,491
Credit and suretyship insurance and proportional reinsurance	85,149	142,440
Legal expenses insurance and proportional reinsurance	-	-
Assistance and proportional reinsurance	10	318
Miscellaneous financial loss insurance and proportional reinsurance	593	-
Non-proportional health reinsurance	9,805	8,623
Non-proportional casualty reinsurance	46,835	11,140
Non-proportional marine, aviation and transport reinsurance	10,993	12,704
Non-proportional property reinsurance	8,713	43,940

There have been no periods of non-compliance or material changes with the Solvency Capital Requirement or the Minimum Capital Requirement during the year. The SF SCR has no undertaking specific parameters or simplifications used in the SCR calculations.

### ***E3 – Use of the duration-based equity risk sub-module in the calculation of the Solvency Capital Requirement***

#### **Company**

Included in Market Risk is undiversified Equity Risk of \$0.5m (2016: \$31.1m) calculated using the duration-based equity risk sub-module as set out in Article 304 of Directive 2009/138/EC.

## Group

Included in Market Risk is undiversified Equity Risk of \$0.5m (2016: \$31.1m) calculated using the duration-based equity risk sub-module as set out in Article 304 of Directive 2009/138/EC.

### ***E4 – Differences between the standard formula and any internal model used***

The Group uses an internally developed Economic Capital Model to monitor its own capital requirements, in addition to the Solvency II Standard Formula Solvency Capital Requirement approach. The Group ECM is applied to HCC International Insurance Company plc to identify expected capital requirements. The ECM is used to support business decisions and also used to assess the appropriateness of the capital requirements for the company under the Standard Formula Solvency Capital Requirement.

The ECM, which is specifically calibrated to the Company business, is believed to represent a more accurate picture of the risks facing the business and the associated capital requirements than the generic Standard Formula. The ECM capital figure is lower than Standard Formula figure and the differences between the ECM and the Standard Formula are understood. We consider the ECM to be more appropriate for making business decisions for HCCII. The main areas of difference relate to:

- Market risk charges on asset-backed securities
- Diversification between lines of business
- Approach to catastrophe risk

Whilst there are differences between the SF and the Company's business profile, we believe that the SF is an appropriate measure of 1-year risk for the Company regulatory purposes, given its relative overall total outcome when compared to the ECM.

At this time, the ECM is not a regulatory approved capital adequacy model for Solvency II and therefore the capital requirements disclosed above relates to the Standard Formula Solvency Capital Requirement only.

### ***E5 – Non-compliance with the Minimum Capital Requirement and non-compliance with the Solvency Capital Requirement***

The Group and Company do not reasonably foresee risks of non-compliance with the Minimum Capital Requirement or the Solvency Capital Requirement but plans to ensure that compliance is maintained with both.

### ***E6 – Any other information***

#### *Brexit*

The United Kingdom voted to leave European Union on 23 June 2016 and the subsequent triggering of Article 51 on 29 March 2017 presents the Company with the risk that it may no longer be licensed to write European risks currently underwritten through its European branches and in the London Market from 29 March 2019.

Although the final 'divorce' terms of the UK's withdraw are currently uncertain, Brexit represents a significant risk to the Company and needed an immediate action which necessitated a pessimistic view of the 'divorce' terms.

Therefore, in response to this risk, the Company executives joined a broader Tokio Marine project team, which included TM senior executives, formed to establish a new European insurance carrier. The involvement of TM senior executives in the project team demonstrated the commitment of the Group and its ultimate parent to maintaining the Company's business which is affected by Brexit.

Consequently, the Company has established a new European subsidiary based in Luxembourg, Tokio Marine Europe, S.A. ('TME') and is currently awaiting authorisation from the Luxembourg insurance regulator. The Company anticipates successful completion of this and establishment of TME European branches by mid-2018 which will enable TME to begin underwriting in the second half of 2018. TME will also establish a UK branch for underwriting of European risks which may continue to be underwritten in the London Market after the UK exit from the EU. In addition to establishment of TME and its European branches, HCCII is undertaking the legal process (Part VII transfer) to transfer insurance and reinsurance contracts for which the Company is on risk or has unpaid claims as at 1 January 2019 from its current European branch network to the new TME branch network. It is anticipated that TME will also benefit from an S&P rating of AA-. Based on the above, the Company believes that the risks presented by the exit of Britain from the European Union are mitigated.

TME's lines of business will be a combination of the lines currently written by the Company and some from the Company's sister company, Tokio Marine Kiln ('TMK'), directly or through the existing European branch networks.

TME will be capitalised from existing excess capital of the Company. It is expected that the capital requirement for TME and the Company excluding TME will be slightly larger than that required for the Company if TME did not need to exist. However, it is also expected that the solvency position for the Group will not be materially different to the current position.

*Undertaking-Specific Parameters ('USPs') and matching adjustments*

The Group does not have any USPs and the Group does not require matching adjustments, which is not required for a Non-Life Company.

*Other material information for capital management*

The group does not consider any other material information for managing capital.

*Simplified calculation in the standard formula*

No material simplifications are used in calculating the standard formula.

## Section F – ANNEX: Quantitative Reporting Templates

This Annex lists the annual Quantitative Reporting Templates ('QRTs') submitted to the PRA on behalf of HCC International Insurance Company plc 'the Company') and HCC Insurance Holdings (International) Limited ('the Group') in respect of the year ended 31 December 2017.

The following QRTs are presented in this annex:

Form	Description	HCCII (Solo)	HCCIH(I) (Group)
S.02.01.02	Balance Sheet	✓	✓
S.05.01.02	Premiums, claims and expenses by line of business	✓	✓
S.05.02.01	Premiums, claims and expenses by country	✓	✓
S.17.01.02	Non-Life Technical Provisions	✓	
S.19.01.21	Non-life insurance claims	✓	
S.23.01.01	Own funds	✓	
S.23.01.22	Own funds		✓
S.25.01.21	Solvency Capital Requirement for undertakings on Standard Formula	✓	
S.25.01.22	Solvency Capital Requirement for groups on Standard Formula		✓
S.28.01.01	Minimum Capital Requirement – Only life or non-life insurance or reinsurance activity	✓	
S.32.01.22	Undertakings in the scope of the group		✓



*Solo Quarterly Reporting Templates*

# Balance sheet (Company)

Entity: HCCI - HCC International Insurance Co PLC

Scenario: 2017 Solvency II - Actual

Period: Annual

Currency: USD - US Dollars

EIOPA QRT: S.02.01.02

Solvency II value

C0010

## Assets

Intangible assets	R0030	
Deferred tax assets	R0040	
Pension benefit surplus	R0050	
Property, plant & equipment held for own use	R0060	2,916,124
<b>Investments (other than assets held for index-linked and unit-linked contracts)</b>	<b>R0070</b>	<b>1,302,742,977</b>
Property (other than for own use)	R0080	239,000
Holdings in related undertakings, including participations	R0090	3,061,438
<i>Equities</i>	<i>R0100</i>	
Equities - listed	R0110	
Equities - unlisted	R0120	
<i>Bonds</i>	<i>R0130</i>	<i>1,209,793,281</i>
Government Bonds	R0140	276,702,141
Corporate Bonds	R0150	580,916,284
Structured notes	R0160	
Collateralised securities	R0170	352,174,856
Collective Investments Undertakings	R0180	28,549,800
Derivatives	R0190	
Deposits other than cash equivalents	R0200	61,099,459
Other investments	R0210	
Assets held for index-linked and unit-linked contracts	R0220	
<b>Loans and mortgages</b>	<b>R0230</b>	
Loans on policies	R0240	
Loans and mortgages to individuals	R0250	
Other loans and mortgages	R0260	
<b>Reinsurance recoverables from:</b>	<b>R0270</b>	<b>262,062,847</b>
Non-life and health similar to non-life	R0280	262,062,847
Non-life excluding health	R0290	245,294,726
Health similar to non-life	R0300	16,768,120
Life and health similar to life, excluding health and index-linked and unit-linked	R0310	
Health similar to life	R0320	
Life excluding health and index-linked and unit-linked	R0330	
Life index-linked and unit-linked	R0340	
Deposits to cedants	R0350	
Insurance and intermediaries receivables	R0360	23,523,861
Reinsurance receivables	R0370	26,612,518
Receivables (trade, not insurance)	R0380	26,079,705
Own shares (held directly)	R0390	
Amounts due in respect of own fund items or initial fund called up but not yet paid in	R0400	
Cash and cash equivalents	R0410	47,858,587
Any other assets, not elsewhere shown	R0420	41
<b>Total assets</b>	<b>R0500</b>	<b>1,691,796,659</b>

## Solvency II value

C0010

## Liabilities

<b>Technical provisions - non-life</b>	<b>R0510</b>	<b>823,751,993</b>
<b>Technical provisions - non-life (excluding health)</b>	<b>R0520</b>	<b>765,819,234</b>
TP calculated as a whole	R0530	
Best estimate	R0540	722,546,342
Risk margin	R0550	43,272,892
<b>Technical provisions - health (similar to non-life)</b>	<b>R0560</b>	<b>57,932,759</b>
TP calculated as a whole	R0570	
Best estimate	R0580	55,526,794
Risk margin	R0590	2,405,964
<b>TP - life (excluding index-linked and unit-linked)</b>	<b>R0600</b>	
<b>Technical provisions - health (similar to life)</b>	<b>R0610</b>	
TP calculated as a whole	R0620	
Best estimate	R0630	
Risk margin	R0640	
<b>TP - life (excluding health and index-linked and unit-linked)</b>	<b>R0650</b>	
TP calculated as a whole	R0660	
Best estimate	R0670	
Risk margin	R0680	
<b>TP - index-linked and unit-linked</b>	<b>R0690</b>	
TP calculated as a whole	R0700	
Best estimate	R0710	
Risk margin	R0720	
Contingent liabilities	R0740	
Provisions other than technical provisions	R0750	
Pension benefit obligations	R0760	
Deposits from reinsurers	R0770	
Deferred tax liabilities	R0780	16,934,498
Derivatives	R0790	
Debts owed to credit institutions	R0800	
Financial liabilities other than debts owed to credit institutions	R0810	
Insurance & intermediaries payables	R0820	11,313,353
Reinsurance payables	R0830	29,639,780
Payables (trade, not insurance)	R0840	
<b>Subordinated liabilities</b>	<b>R0850</b>	
Subordinated liabilities not in BOF	R0860	
Subordinated liabilities in BOF	R0870	
Any other liabilities, not elsewhere shown	R0880	106,613,075
<b>Total liabilities</b>	<b>R0900</b>	<b>988,252,698</b>
<b>Excess of assets over liabilities</b>	<b>R1000</b>	<b>703,543,961</b>

# Premiums, claims and expenses by line of business

Entity: HCCI - HCC International Insurance Co Plc

Scenario: 2017 Solvency II - Actual

Period: Annual

Category: Solvency II: Statutory Account

Currency: USD - US Dollars

EIOPA QRT: S.05.01.02

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)											Line of Business for: accepted non-proportional reinsurance						
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	Health	Casualty	Marine, aviation, transport	Property	Total	
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0200	
<b>Premiums written</b>																			
Gross - Direct Business	R0110	21,134,328	10,092,643	11,600,795			11,577,531	13,240,958	198,009,527	171,280,432	246,992	9,571,092						446,754,298	
Gross - Proportional reinsurance accepted	R0120	0	3				300,797	7,189,453	1,916,517		384,706							9,791,476	
Gross - Non-proportional reinsurance accepted	R0130												10,207,323	14,809,919	-19,648,832	101,194,013		106,562,424	
Reinsurers' share	R0140	24,463	2,659,556	332,873			-2,876,071	5,903,219	49,100,449	21,625,113	3,125	3,823,665	1,731,953	-2,327,590	-14,461,028	37,242,852		102,782,582	
<b>Net</b>	<b>R0200</b>	<b>21,109,864</b>	<b>7,433,090</b>	<b>11,267,922</b>			<b>14,754,398</b>	<b>14,527,192</b>	<b>150,825,595</b>	<b>149,655,319</b>	<b>628,573</b>	<b>5,747,427</b>	<b>8,475,370</b>	<b>17,137,509</b>	<b>-5,187,804</b>	<b>63,951,161</b>		<b>460,325,617</b>	
<b>Premiums earned</b>																			
Gross - Direct Business	R0210	22,622,360	10,894,374	10,808,670			12,567,725	14,636,881	207,474,052	160,997,068	0	160,895	8,724,921					448,886,946	
Gross - Proportional reinsurance accepted	R0220	0	3	0			226,628	7,053,559	1,697,595	0	0	387,427	0					9,365,211	
Gross - Non-proportional reinsurance accepted	R0230												9,960,865	14,082,509	-17,080,105	97,029,619		103,992,887	
Reinsurers' share	R0240	605,192	3,576,319	316,327			-2,520,876	6,327,727	53,936,377	21,513,883	0	10,670	3,509,851	1,670,957	-2,244,780	-13,595,178	33,822,887	106,929,356	
<b>Net</b>	<b>R0300</b>	<b>22,017,169</b>	<b>7,318,059</b>	<b>10,492,343</b>			<b>15,315,229</b>	<b>15,362,712</b>	<b>155,235,269</b>	<b>139,483,184</b>	<b>537,652</b>	<b>5,215,070</b>	<b>8,289,908</b>	<b>16,327,289</b>	<b>-3,484,927</b>	<b>63,206,732</b>		<b>455,315,689</b>	
<b>Claims incurred</b>																			
Gross - Direct Business	R0310	20,912,653	2,917,259	8,019,967			1,726,255	14,407,374	92,119,533	90,006,550	50,597	3,705,588						233,865,776	
Gross - Proportional reinsurance accepted	R0320	-14,300	81,733	472,434			211,809	4,340,413	2,832,005	628,383	74,704	64,996						8,692,177	
Gross - Non-proportional reinsurance accepted	R0330												4,913,427	11,988,953	-1,778,311	519,244		15,643,314	
Reinsurers' share	R0340	182,926	4,511,398	1,384,880			-15,528,203	8,272,786	20,722,966	24,151,088	-220	3,724,145	628,946	4,986,573	-3,196,839	5,985,901		54,564,435	
<b>Net</b>	<b>R0400</b>	<b>20,715,427</b>	<b>-1,512,407</b>	<b>7,107,551</b>			<b>17,467,267</b>	<b>10,475,001</b>	<b>74,228,572</b>	<b>66,483,845</b>	<b>125,520</b>	<b>46,439</b>	<b>5,543,374</b>	<b>7,002,382</b>	<b>1,418,518</b>	<b>-5,464,657</b>		<b>203,636,831</b>	
<b>Changes in other technical provisions</b>																			
Gross - Direct Business	R0410	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Gross - Proportional reinsurance accepted	R0420	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Gross - Non-proportional reinsurance accepted	R0430																		
Reinsurers' share	R0440	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
<b>Net</b>	<b>R0500</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	
<b>Expenses incurred</b>																			
<b>R0550</b>	<b>11,603,417</b>	<b>3,419,282</b>	<b>4,177,744</b>				<b>7,794,824</b>	<b>4,873,425</b>	<b>70,105,913</b>	<b>62,767,791</b>	<b>302,180</b>	<b>620,071</b>	<b>3,009,839</b>	<b>4,772,124</b>	<b>3,974,654</b>	<b>19,345,750</b>		<b>196,767,013</b>	
<b>Administrative expenses</b>																			
Gross - Direct Business	R0610	2,019,242	1,766,886	1,196,523			3,894,798	418,616	20,395,944	33,646,552	19,091	782,734						64,140,387	
Gross - Proportional reinsurance accepted	R0620	0	0				0	542,362	0	0	39,195							581,557	
Gross - Non-proportional reinsurance accepted	R0630												1,535,935	-1,153,137	3,383,614	10,454,320		14,220,732	
Reinsurers' share	R0640																	0	
<b>Net</b>	<b>R0700</b>	<b>2,019,242</b>	<b>1,766,886</b>	<b>1,196,523</b>			<b>3,894,798</b>	<b>960,978</b>	<b>20,395,944</b>	<b>33,646,552</b>	<b>58,287</b>	<b>782,734</b>	<b>1,535,935</b>	<b>-1,153,137</b>	<b>3,383,614</b>	<b>10,454,320</b>		<b>78,942,676</b>	
<b>Investment management expenses</b>																			
Gross - Direct Business	R0710	28,668	45,764	15,895			91,992	0	454,873	450,510	0	25,691						1,113,392	
Gross - Proportional reinsurance accepted	R0720	0	0	0			0	0	0	0	1,156							1,156	
Gross - Non-proportional reinsurance accepted	R0730												39,739	51,507	106,986	160,732		358,963	
Reinsurers' share	R0740																	0	
<b>Net</b>	<b>R0800</b>	<b>28,668</b>	<b>45,764</b>	<b>15,895</b>			<b>91,992</b>	<b>0</b>	<b>454,873</b>	<b>450,510</b>	<b>1,156</b>	<b>25,691</b>	<b>39,739</b>	<b>51,507</b>	<b>106,986</b>	<b>160,732</b>		<b>1,473,512</b>	
<b>Claims management expenses</b>																			
Gross - Direct Business	R0810	6,387	88,240	472,434			207,402	117,982	2,732,377	837,961	694	60,476						4,523,953	
Gross - Proportional reinsurance accepted	R0820	0	0				0	2,685	0	0	0							2,685	
Gross - Non-proportional reinsurance accepted	R0830												54,554	-2,018	144,115	125,430		322,082	
Reinsurers' share	R0840																	0	
<b>Net</b>	<b>R0900</b>	<b>6,387</b>	<b>88,240</b>	<b>472,434</b>			<b>207,402</b>	<b>120,666</b>	<b>2,732,377</b>	<b>837,961</b>	<b>694</b>	<b>60,476</b>	<b>54,554</b>	<b>-2,018</b>	<b>144,115</b>	<b>125,430</b>		<b>4,848,719</b>	
<b>Acquisition expenses</b>																			
Gross - Direct Business	R0910	9,543,851	3,784,537	2,493,304			3,737,225	1,810,416	57,309,425	28,134,657	48,937	2,626,319						109,488,669	
Gross - Proportional reinsurance accepted	R0920	0	70				4,103	2,319,953	303,834	0	193,068							2,819,888	
Gross - Non-proportional reinsurance accepted	R0930												2,201,526	4,628,256	-233,386	10,083,129		16,679,525	
Reinsurers' share	R0940	-5,269	2,266,075	412			140,696	337,589	11,090,539	301,890	-40	2,875,149	821,915	-1,247,516	-573,325	1,477,861		17,485,976	
<b>Net</b>	<b>R1000</b>	<b>9,549,120</b>	<b>1,518,392</b>	<b>2,492,892</b>			<b>3,600,632</b>	<b>3,791,780</b>	<b>46,522,720</b>	<b>27,832,767</b>	<b>242,044</b>	<b>-248,830</b>	<b>1,379,611</b>	<b>5,875,771</b>	<b>339,939</b>	<b>8,605,268</b>		<b>111,502,106</b>	
<b>Overhead expenses</b>																			
Gross - Direct Business	R1010	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Gross - Proportional reinsurance accepted	R1020	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Gross - Non-proportional reinsurance accepted	R1030																		
Reinsurers' share	R1040	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
<b>Net</b>	<b>R1100</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	
<b>Other expenses</b>																			
<b>R1200</b>																			
<b>Total expenses</b>	<b>R1300</b>																		<b>196,767,013</b>

# Premiums, claims and expenses by country

Entity: HCCI - HCC International Insurance Co PLC

Scenario: 2017 Solvency II - Actual

Period: Annual

Category: Solvency II: Statutory Account

Currency: USD - US Dollars

EIOPA QRT: S.05.02.01

		Home Country	Top 5 countries (by amount of gross premiums written) - non-life obligations					Total Top 5 and home country
		C0010	C0020	C0030	C0040	C0050	C0060	C0070
			Spain (ES)	Ireland (IE)	France (FR)	Italy (IT)	Japan (JP)	
	R0010	C0080	C0090	C0100	C0110	C0120	C0130	C0140
<b>Premiums written</b>								
Gross - Direct Business	R0110	288,400,583	90,743,903	14,921,170	7,783,428	5,665,389	5,876	407,520,349
Gross - Proportional reinsurance accepted	R0120	2,798,452	-1,450	0	5	0	329,371	3,126,378
Gross - Non-proportional reinsurance accepted	R0130	15,531,905	846,254	2,547,162	2,753,086	4,606,225	9,664,301	35,948,932
Reinsurers' share	R0140	55,986,750	16,717,433	3,188,446	1,923,202	1,874,849	1,825,190	81,515,870
<b>Net</b>	<b>R0200</b>	<b>250,744,190</b>	<b>74,871,274</b>	<b>14,279,885</b>	<b>8,613,317</b>	<b>8,396,765</b>	<b>8,174,358</b>	<b>365,079,789</b>
<b>Premium earned</b>								
Gross - Direct Business	R0210	283,352,661	92,643,925	18,066,410	6,739,281	5,811,284	-17,480	406,596,082
Gross - Proportional reinsurance accepted	R0220	3,210,721	-1,192	0	2	0	141,425	3,350,956
Gross - Non-proportional reinsurance accepted	R0230	13,852,379	497,168	61,121	85,434	5,430,322	16,532,438	36,458,862
Reinsurers' share	R0240	57,133,920	17,713,610	3,447,545	1,297,944	2,137,961	3,167,758	84,898,739
<b>Net</b>	<b>R0300</b>	<b>243,281,840</b>	<b>75,426,291</b>	<b>14,679,986</b>	<b>5,526,773</b>	<b>9,103,646</b>	<b>13,488,625</b>	<b>361,507,161</b>
<b>Claims incurred</b>								
Gross - Direct Business	R0310	135,234,395	49,555,643	1,421,274	2,415,077	1,142,315	43,392	189,812,097
Gross - Proportional reinsurance accepted	R0320	1,755,450	24,507	0	11,872	77,888	798,217	2,667,934
Gross - Non-proportional reinsurance accepted	R0330	928,706	176,066	208,223	197,963	966,915	352,228	2,830,101
Reinsurers' share	R0340	29,145,666	10,514,742	344,354	554,710	462,193	252,288	41,273,953
<b>Net</b>	<b>R0400</b>	<b>108,772,886</b>	<b>39,241,473</b>	<b>1,285,143</b>	<b>2,070,202</b>	<b>1,724,925</b>	<b>941,549</b>	<b>154,036,178</b>
<b>Changes in other technical provisions</b>								
Gross - Direct Business	R0410	0	0	0	0	0	0	0
Gross - Proportional reinsurance accepted	R0420	0	0	0	0	0	0	0
Gross - Non-proportional reinsurance accepted	R0430	0	0	0	0	0	0	0
Reinsurers' share	R0440	0	0	0	0	0	0	0
<b>Net</b>	<b>R0500</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Expenses incurred</b>	<b>R0550</b>	<b>105,135,497</b>	<b>32,595,859</b>	<b>6,344,031</b>	<b>2,388,423</b>	<b>3,934,187</b>	<b>5,829,179</b>	<b>156,227,176</b>
<b>Other expenses</b>	<b>R1200</b>							<b>0.00</b>
<b>Total expenses</b>	<b>R1300</b>							<b>156,227,176</b>

# Non - life Technical Provisions

Entity: HCCI - HCC International Insurance Co PLC

Scenario: 2017 Solvency II - Actual

Period: Annual

Currency: USD - US Dollars

EIOPA QRT: S.17.01.02

		Direct business and accepted proportional reinsurance											Accepted non-proportional reinsurance: <input type="checkbox"/>					Total Non-Life obligations
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	Non-proportional health reinsurance	Non-proportional casualty reinsurance	Non-proportional marine, aviation and transport reinsurance	Non-proportional property reinsurance	
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0170	
Technical provisions calculated as a whole	R0010																	0.00
Total recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole	R0050																	0
Technical Provisions calculated as a sum of BE and RM Best estimate																		
<b>Premium provisions</b>																		
Gross - Total	R0060	962,662	-917,200	2,863,651			-492,994	-1,392,132	34,353,119	26,503,296		-55,810	-570,763	-399,225	2,516,734	-797,080	-7,988,037	54,586,221
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty	R0140	31,498	-1,413,438	49,564			-1,396,690	-2,486,129	-2,046,224	-10,411,194		13,205	-484,143	-642,492	-1,383,406	-385,648	-1,428,368	-19,126,730
<b>Net Best Estimate of Premium Provisions</b>	R0150	931,164	496,238	2,814,087			903,695	1,093,997	36,399,343	36,914,490		-69,015	-86,620	243,268	3,900,140	-411,432	-9,416,405	73,712,951
<b>Claims provisions</b>																		
Gross - Total	R0160	3,224,969	6,014,343	32,579,238			23,378,472	11,099,435	391,744,285	111,497,127		78,456	4,651,715	11,198,356	63,360,010	34,630,299	30,030,211	723,486,916
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty	R0240	42,700	3,775,346	13,288,500			4,428,015	2,111,509	133,120,134	63,263,297		-178	3,972,279	1,636,443	20,425,088	23,226,064	11,900,380	281,189,576
<b>Net Best Estimate of Claims Provisions</b>	R0250	3,182,269	2,238,996	19,290,738			18,950,457	8,987,926	258,624,151	48,233,830		78,634	679,435	9,561,913	42,934,922	11,404,235	18,129,831	442,297,339
<b>Total Best estimate - gross</b>	R0260	4,187,631	5,097,143	35,442,889			22,885,478	9,707,303	426,097,404	138,000,423		22,646	4,080,952	10,799,131	65,876,745	33,833,219	22,042,174	778,073,137
<b>Total Best estimate - net</b>	R0270	4,113,433	2,735,235	22,104,825			19,854,152	10,081,923	295,023,495	85,148,321		9,619	592,815	9,805,181	46,835,062	10,992,803	8,713,426	516,010,290
<b>Risk margin</b>	R0280	107,356	137,347	1,656,505			1,494,682	5,149,898	30,072,476	3,201,507		498	29,026	504,756	5,572,583	712,105	-2,959,883	45,678,856
<b>Amount of the transitional on Technical Provisions</b>																		
TP as a whole	R0290																	0
Best estimate	R0300																	0
Risk margin	R0310																	0
<b>Technical Provisions</b>																		
Technical provisions - total	R0320	4,294,987	5,234,490	37,099,394			24,380,159	14,857,200	456,169,880	141,201,930		23,143	4,109,978	11,303,888	71,449,328	34,545,324	19,082,291	823,751,993
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty	R0330	74,198	2,361,908	13,338,064			3,031,326	-374,620	131,073,910	52,852,103		13,026	3,488,136	993,951	19,041,682	22,840,416	13,328,747	262,062,847
Technical provisions minus recoverables from reinsurance/SPV and Finite Re- total	R0340	4,220,789	2,872,582	23,761,330			21,348,834	15,231,821	325,095,971	88,349,828		10,117	621,841	10,309,937	52,407,645	11,704,908	5,753,543	561,689,146

# Non-life Insurance Claims Information

Entity: HCCI - HCC International Insurance Co PLC

Scenario: 2017 Solvency II - Actual

Period: Annual

Currency: USD - US Dollars

Accident year/Underwriting year 2 - Underwriting year

EIOPA QRT: S.19.01.21

		Development year (absolute amount)										In Current year	Sum of years (cumulative)		
		0	1	2	3	4	5	6	7	8	9			10 & +	
<b>Gross Claims Paid (non-cumulative)</b>															
		<b>C0010</b>	<b>C0020</b>	<b>C0030</b>	<b>C0040</b>	<b>C0050</b>	<b>C0060</b>	<b>C0070</b>	<b>C0080</b>	<b>C0090</b>	<b>C0100</b>	<b>C0110</b>		<b>C0170</b>	<b>C0180</b>
Prior	R0100											306,746,103	R0100	39,607,294.55	306,746,102.78
-9	R0160	5,336,319.05	37,173,896.11	28,844,673.58	18,044,868.52	2,030,515.51	3,630,721.03	1,616,105.99	9,017,731.36	22,409,287.03	604,078.58		R0160	604,078.58	128,708,196.76
-8	R0170	4,786,844.46	22,798,047.52	8,225,839.77	9,931,303.86	6,272,747.67	2,796,051.29	3,286,689.28	3,189,646.69	-1,287,955.48			R0170	-1,287,955.48	59,999,215.06
-7	R0180	21,493,087.07	76,232,528.01	43,788,965.09	29,900,481.97	5,599,291.65	6,514,168.03	13,494,011.25	1,092,298.06				R0180	1,092,298.06	198,114,831.13
-6	R0190	9,434,967.04	47,202,110.01	23,652,348.11	25,509,609.12	4,255,920.40	8,417,173.48	8,861,829.75					R0190	8,861,829.75	127,333,957.91
-5	R0200	7,478,799.52	25,446,145.42	24,515,150.48	34,253,170.71	8,979,966.66	12,351,451.37						R0200	12,351,451.37	113,024,684.16
-4	R0210	11,619,838.36	34,044,963.69	21,691,819.69	13,237,782.46	15,953,812.70							R0210	15,953,812.70	96,548,216.90
-3	R0220	10,402,185.96	32,116,496.45	41,589,813.15	33,199,301.64								R0220	33,199,301.64	117,307,797.20
-2	R0230	11,495,802.63	41,783,853.03	53,195,332.80									R0230	53,195,332.80	106,474,988.46
-1	R0240	25,800,322.51	81,466,512.36										R0240	81,466,512.36	107,266,834.87
0	R0250	10,373,614.20											R0250	10,373,614.20	10,373,614.20
<b>Total</b>												R0260	<b>255,417,570.53</b>	<b>1,371,898,439.43</b>	

Development year (absolute amount)											Year end (discounted data)
0	1	2	3	4	5	6	7	8	9	10	

## Gross undiscounted Best Estimate Claims Provisions

		C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300	C0360	
Prior	R0100											55,631,851.58	R0100	54,482,706.79
-9	R0160	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	43,575,909.34	41,674,758.53		R0160	40,904,940.64
-8	R0170	0.00	0.00	0.00	0.00	0.00	0.00	0.00	21,811,417.39	26,954,831.22			R0170	26,797,968.55
-7	R0180	0.00	0.00	0.00	0.00	0.00	0.00	27,383,810.53	24,192,586.81				R0180	23,754,892.40
-6	R0190	0.00	0.00	0.00	0.00		37,002,252.09	27,437,524.89					R0190	26,293,642.80
-5	R0200	0.00	0.00	0.00	0.00	63,574,540.59	36,819,360.50						R0200	35,752,663.88
-4	R0210	0.00	0.00	0.00	98,635,893.56	87,640,342.54							R0210	84,759,943.75
-3	R0220	0.00	0.00	99,687,813.37	84,043,432.07								R0220	81,104,249.23
-2	R0230	0.00	139,605,648.14	132,275,280.54									R0230	127,243,105.28
-1	R0240	88,034,698.73	121,819,905.67										R0240	116,781,039.68
0	R0250	109,250,067.06											R0250	105,611,762.59
<b>Total</b>												R0260	<b>723,486,915.59</b>	

## Own funds (Company)

Entity: HCCI - HCC International Insurance Co PLC

Scenario: 2017 Solvency II - Actual

Period: Annual

Currency: USD - US Dollars

EIOPA QRT: S.23.01.01

		Total	Tier 1 -	Tier 1 -	Tier 2	Tier 3
		C0010	unrestricted	restricted	C0040	C0050
			C0020	C0030		
<b>Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation (EU) 2015/35</b>						
Ordinary share capital (gross of own shares)	R0010	233,241,504	233,241,504			
Share premium account related to ordinary share capital	R0030					
Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings <input type="checkbox"/>	R0040					
Subordinated mutual member accounts	R0050					
Surplus funds	R0070					
Preference shares	R0090					
Share premium account related to preference shares	R0110					
Reconciliation reserve	R0130	470,302,457	470,302,457			
Subordinated liabilities	R0140					
An amount equal to the value of net deferred tax assets	R0160					
own funds not specified above	R0180					
<b>Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds</b>						
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	R0220					
<b>Deductions</b>						
Deductions for participations in financial and credit institutions	R0230					
<b>Total basic own funds after deductions</b>	<b>R0290</b>	<b>703,543,961</b>	<b>703,543,961</b>			
<b>Ancillary own funds</b>						
Unpaid and uncalled ordinary share capital callable on demand	R0300					
Unpaid and uncalled mutual funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	R0310					
Unpaid and uncalled preference shares callable on demand	R0320					
A legally binding commitment to subscribe and pay for subordinated liabilities on demand <input type="checkbox"/>	R0330					
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	R0340					
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	R0350					
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0360					
Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0370					
Other ancillary own funds	R0390					
<b>Total ancillary own funds</b>	<b>R0400</b>					



		Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
<b>Available and eligible own funds</b>						
<b>Total available own funds to meet the SCR</b>	<b>R0500</b>	703,543,961	703,543,961			
<b>Total available own funds to meet the MCR</b>	<b>R0510</b>	703,543,961	703,543,961			
<b>Total eligible own funds to meet the SCR</b>	<b>R0540</b>	703,543,961	703,543,961			
<b>Total eligible own funds to meet the MCR</b>	<b>R0550</b>	703,543,961	703,543,961			
<b>SCR</b>	<b>R0580</b>	340,994,228				
<b>MCR</b>	<b>R0600</b>	121,364,393				
<b>Ratio of Eligible own funds to SCR</b>	<b>R0620</b>	206%				
<b>Ratio of Eligible own funds to MCR</b>	<b>R0640</b>	580%				
		<b>C0060</b>				
<b>Reconciliation reserve</b>						
Excess of assets over liabilities	R0700	703,543,961				
Own shares (held directly and indirectly)	R0710					
Foreseeable dividends, distributions and charges	R0720					
Other basic own fund items	R0730	233,241,504				
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	R0740					
<b>Reconciliation reserve</b>	<b>R0760</b>	<b>470,302,457</b>				
<b>Expected profits</b>						
Expected profits included in future premiums (EPIFP) - Life Business	R0770					
Expected profits included in future premiums (EPIFP) - Non- life business	R0780	32,014,805				
<b>Total Expected profits included in future premiums (EPIFP)</b>	<b>R0790</b>	<b>32,014,805</b>				

## Solvency Capital Requirement - for undertakings on Standard Formula

Entity: HCCI - HCC International Insurance Co PLC

Scenario: 2017 Solvency II - Actual

Period: Annual

Category: Solvency II: Company

Currency: USD - US Dollars

EIOPA QRT: S.25.01.21

		Gross solvency capital requirement	USP	Simplifications
		C0040	C0080	C0090
Market risk	R0010	80,210,290		
Counterparty default risk	R0020	40,872,938		
Life underwriting risk	R0030			
Health underwriting risk	R0040	19,409,683		
Non-life underwriting risk	R0050	290,704,989		
Diversification	R0060	-85,733,784		
Intangible asset risk	R0070			
<b>Basic Solvency Capital Requirement</b>	<b>R0100</b>	<b>345,464,116</b>		

### Calculation of Solvency Capital Requirement

		C0100
Total capital requirement for operational risk	R0130	23,342,194
Loss-absorbing capacity of technical provisions	R0140	
Loss-absorbing capacity of deferred taxes	R0150	-27,812,082
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	R0160	
<b>Solvency capital requirement excluding capital add-on</b>	<b>R0200</b>	<b>340,994,228</b>
Capital add-on already set	R0210	
<b>Solvency capital requirement</b>	<b>R0220</b>	<b>340,994,228</b>
<b>Other information on SCR</b>		
Capital requirement for duration-based equity risk sub-module	R0400	
Total amount of Notional Solvency Capital Requirements for remaining part	R0410	
Total amount of Notional Solvency Capital Requirements for ring fenced funds	R0420	
Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	R0430	
Diversification effects due to RFF nSCR aggregation for article 304	R0440	

# Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

Entity: HCCI - HCC International Insurance Co PLC

Scenario: 2017 Solvency II - Actual

Period: Annual

Category: Solvency II: Company

Currency: USD - US Dollars

EIOPA QRT: S.28.01.01

Linear formula component for non-life insurance and reinsurance obligations

		C0010
MCR <sub>NL</sub> Result	R0010	121,364,393

MCR calculation Non Life		Non-life activities	
		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0020	C0030
Medical expense insurance and proportional reinsurance	R0020	4,113,433	26,879,927
Income protection insurance and proportional reinsurance	R0030	2,735,235	4,423,101
Workers' compensation insurance and proportional reinsurance	R0040	22,104,825	9,579,034
Motor vehicle liability insurance and proportional reinsurance	R0050	-	-
Other motor insurance and proportional reinsurance	R0060	-	-
Marine, aviation and transport insurance and proportional reinsurance	R0070	19,854,152	18,848,225
Fire and other damage to property insurance and proportional reinsurance	R0080	10,081,923	8,072,070
General liability insurance and proportional reinsurance	R0090	295,023,495	166,491,394
Credit and suretyship insurance and proportional reinsurance	R0100	85,148,321	142,440,420
Legal expenses insurance and proportional reinsurance	R0110	-	-
Assistance and proportional reinsurance	R0120	9,619	317,806
Miscellaneous financial loss insurance and proportional reinsurance	R0130	592,815	-
Non-proportional health reinsurance	R0140	9,805,181	8,622,695
Non-proportional casualty reinsurance	R0150	46,835,062	11,140,198
Non-proportional marine, aviation and transport reinsurance	R0160	10,992,803	12,703,535
Non-proportional property reinsurance	R0170	8,713,426	43,940,010

Linear formula component for life insurance and reinsurance obligations

		C0040
MCR <sub>L</sub> Result	R0200	

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
		C0050	C0060
Obligations with profit participation - guaranteed benefits	R0210		
Obligations with profit participation - future discretionary benefits	R0220		
Index-linked and unit-linked insurance obligations	R0230		
Other life (re)insurance and health (re)insurance obligations	R0240		
Total capital at risk for all life (re)insurance obligations	R0250		

Overall MCR calculation		C0070
Linear MCR	R0300	121,364,393
SCR	R0310	340,994,228
MCR cap	R0320	153,447,403
MCR floor	R0330	85,248,557
Combined MCR	R0340	121,364,393
Absolute floor of the MCR	R0350	4,306,060
Minimum Capital Requirement		C0070
	R0400	121,364,393

*Group Quantitative Reporting Template*

# Balance sheet (Group)

Entity: HCC\_GRP - HCC Insurance Holdings (International) Limited

Scenario: 2017 Solvency II - Actual

Period: Annual

Currency: USD - US Dollars

EIOPA QRT: S.02.01.02

Solvency II value

C0010

## Assets

Intangible assets	R0030	
Deferred tax assets	R0040	
Pension benefit surplus	R0050	
Property, plant & equipment held for own use	R0060	3,085,978
<b>Investments (other than assets held for index-linked and unit-linked contracts)</b>	<b>R0070</b>	<b>1,299,681,539</b>
Property (other than for own use)	R0080	239,000
Holdings in related undertakings, including participations	R0090	
<i>Equities</i>	<i>R0100</i>	
Equities - listed	R0110	
Equities - unlisted	R0120	
<i>Bonds</i>	<i>R0130</i>	<i>1,209,793,281</i>
Government Bonds	R0140	276,702,141
Corporate Bonds	R0150	580,916,284
Structured notes	R0160	
Collateralised securities	R0170	352,174,856
Collective Investments Undertakings	R0180	28,549,800
Derivatives	R0190	
Deposits other than cash equivalents	R0200	61,099,459
Other investments	R0210	
Assets held for index-linked and unit-linked contracts	R0220	
<b>Loans and mortgages</b>	<b>R0230</b>	
Loans on policies	R0240	
Loans and mortgages to individuals	R0250	
Other loans and mortgages	R0260	
<b>Reinsurance recoverables from:</b>	<b>R0270</b>	<b>262,062,847</b>
Non-life and health similar to non-life	R0280	262,062,847
Non-life excluding health	R0290	245,294,726
Health similar to non-life	R0300	16,768,120
Life and health similar to life, excluding health and index-linked and unit-linked	R0310	
Health similar to life	R0320	
Life excluding health and index-linked and unit-linked	R0330	
Life index-linked and unit-linked	R0340	
Deposits to cedants	R0350	
Insurance and intermediaries receivables	R0360	24,220,999
Reinsurance receivables	R0370	26,612,518
Receivables (trade, not insurance)	R0380	27,725,827
Own shares (held directly)	R0390	
paid in	R0400	
Cash and cash equivalents	R0410	51,720,853
Any other assets, not elsewhere shown	R0420	41
<b>Total assets</b>	<b>R0500</b>	<b>1,695,110,602</b>

## Solvency II value

C0010

## Liabilities

<b>Technical provisions - non-life</b>	<b>R0510</b>	<b>823,751,993</b>
<b>Technical provisions - non-life (excluding health)</b>	<b>R0520</b>	<b>765,819,234</b>
TP calculated as a whole	R0530	
Best estimate	R0540	722,546,342
Risk margin	R0550	43,272,892
<b>Technical provisions - health (similar to non-life)</b>	<b>R0560</b>	<b>57,932,759</b>
TP calculated as a whole	R0570	
Best estimate	R0580	55,526,794
Risk margin	R0590	2,405,964
<b>TP - life (excluding index-linked and unit-linked)</b>	<b>R0600</b>	
<b>Technical provisions - health (similar to life)</b>	<b>R0610</b>	
TP calculated as a whole	R0620	
Best estimate	R0630	
Risk margin	R0640	
<b>TP - life (excluding health and index-linked and unit-linked)</b>	<b>R0650</b>	
TP calculated as a whole	R0660	
Best estimate	R0670	
Risk margin	R0680	
<b>TP - index-linked and unit-linked</b>	<b>R0690</b>	
TP calculated as a whole	R0700	
Best estimate	R0710	
Risk margin	R0720	
Contingent liabilities	R0740	
Provisions other than technical provisions	R0750	
Pension benefit obligations	R0760	
Deposits from reinsurers	R0770	
Deferred tax liabilities	R0780	16,844,001
Derivatives	R0790	
Debts owed to credit institutions	R0800	
Financial liabilities other than debts owed to credit institutions	R0810	
Insurance & intermediaries payables	R0820	11,313,353
Reinsurance payables	R0830	29,639,780
Payables (trade, not insurance)	R0840	
<b>Subordinated liabilities</b>	<b>R0850</b>	
Subordinated liabilities not in BOF	R0860	
Subordinated liabilities in BOF	R0870	
Any other liabilities, not elsewhere shown	R0880	104,736,662
<b>Total liabilities</b>	<b>R0900</b>	<b>986,285,788</b>
<b>Excess of assets over liabilities</b>	<b>R1000</b>	<b>708,824,814</b>

# Premiums, claims and expenses by line of business

Entity: HCC\_GRP - HCC Insurance Holdings (International) Limited

Scenario: 2017 Solvency II - Actual

Period: Annual

Category: Solvency II: Statutory Account

Currency: USD - US Dollars

EIOPA QRT: S.05.01.02

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)											Line of Business for: accepted non-proportional reinsurance					
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	Health	Casualty	Marine, aviation, transport	Property	Total
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0200
<b>Premiums written</b>																		
Gross - Direct Business	R0110	21,134,328	10,092,643	11,600,795			11,577,531	13,240,958	198,009,527	171,280,432		246,992	9,571,092					446,754,298
Gross - Proportional reinsurance accepted	R0120	0	3				300,797	7,189,453	1,916,517			384,706						9,791,476
Gross - Non-proportional reinsurance accepted	R0130													10,207,323	14,809,919	-19,648,832	101,194,013	106,562,424
Reinsurers' share	R0140	24,463	2,659,556	332,873			-2,876,071	5,903,219	49,100,449	21,625,113		3,125	3,823,665	1,731,953	-2,327,590	-14,461,028	37,242,852	102,782,582
<b>Net</b>	<b>R0200</b>	<b>21,109,864</b>	<b>7,433,090</b>	<b>11,267,922</b>			<b>14,754,398</b>	<b>14,527,192</b>	<b>150,825,595</b>	<b>149,655,319</b>		<b>628,573</b>	<b>5,747,427</b>	<b>8,475,370</b>	<b>17,137,509</b>	<b>-5,187,804</b>	<b>63,951,161</b>	<b>460,325,617</b>
<b>Premiums earned</b>																		
Gross - Direct Business	R0210	22,622,360	10,894,374	10,808,670			12,567,725	14,636,881	207,474,052	160,997,068		160,895	8,724,921					448,886,946
Gross - Proportional reinsurance accepted	R0220	0	3	0			226,628	7,053,559	1,697,595		0	387,427	0					9,365,211
Gross - Non-proportional reinsurance accepted	R0230													9,960,865	14,082,509	-17,080,105	97,029,619	103,992,887
Reinsurers' share	R0240	605,192	3,576,319	316,327			-2,520,876	6,327,727	53,936,377	21,513,883	0	10,670	3,509,851	1,670,957	-2,244,780	-13,595,178	33,822,887	106,929,356
<b>Net</b>	<b>R0300</b>	<b>22,017,169</b>	<b>7,318,059</b>	<b>10,492,343</b>			<b>15,315,229</b>	<b>15,362,712</b>	<b>155,235,269</b>	<b>139,483,184</b>		<b>537,652</b>	<b>5,215,070</b>	<b>8,289,908</b>	<b>16,327,289</b>	<b>-3,484,927</b>	<b>63,206,732</b>	<b>455,315,689</b>
<b>Claims incurred</b>																		
Gross - Direct Business	R0310	20,912,653	2,917,259	8,019,967			1,726,255	14,407,374	92,119,533	90,006,550		50,597	3,705,588					233,865,776
Gross - Proportional reinsurance accepted	R0320	-14,300	81,733	472,434			211,809	4,340,413	2,832,005	628,383		74,704	64,996					8,692,177
Gross - Non-proportional reinsurance accepted	R0330													4,913,427	11,988,953	-1,778,311	519,244	15,643,314
Reinsurers' share	R0340	182,926	4,511,398	1,384,880			-15,528,203	8,272,786	20,722,966	24,151,088		-220	3,724,145	628,946	4,986,573	-3,196,829	5,983,901	54,564,435
<b>Net</b>	<b>R0400</b>	<b>20,715,427</b>	<b>-1,512,407</b>	<b>7,107,551</b>			<b>17,467,267</b>	<b>10,475,001</b>	<b>74,228,572</b>	<b>66,483,845</b>		<b>125,520</b>	<b>46,439</b>	<b>5,543,374</b>	<b>7,002,382</b>	<b>1,418,518</b>	<b>-5,464,657</b>	<b>203,636,831</b>
<b>Changes in other technical provisions</b>																		
Gross - Direct Business	R0410	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Gross - Proportional reinsurance accepted	R0420	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Gross - Non-proportional reinsurance accepted	R0430																	
Reinsurers' share	R0440	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>Net</b>	<b>R0500</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Expenses incurred</b>																		
<b>R0550</b>	<b>11,603,417</b>	<b>3,419,282</b>	<b>4,177,744</b>				<b>7,794,824</b>	<b>4,873,425</b>	<b>70,105,913</b>	<b>59,329,454</b>		<b>302,180</b>	<b>620,071</b>	<b>3,009,839</b>	<b>4,772,124</b>	<b>3,974,654</b>	<b>19,345,750</b>	<b>193,328,676</b>
<b>Administrative expenses</b>																		
Gross - Direct Business	R0610	2,019,242	1,766,886	1,196,523			3,894,798	418,616	20,395,944	30,208,215		19,091	782,734					60,702,050
Gross - Proportional reinsurance accepted	R0620	0	0				0	542,362	0	0		39,195						581,557
Gross - Non-proportional reinsurance accepted	R0630													1,535,935	-1,153,137	3,383,614	10,454,320	14,220,732
Reinsurers' share	R0640																	0
<b>Net</b>	<b>R0700</b>	<b>2,019,242</b>	<b>1,766,886</b>	<b>1,196,523</b>			<b>3,894,798</b>	<b>960,978</b>	<b>20,395,944</b>	<b>30,208,215</b>		<b>58,287</b>	<b>782,734</b>	<b>1,535,935</b>	<b>-1,153,137</b>	<b>3,383,614</b>	<b>10,454,320</b>	<b>75,504,339</b>
<b>Investment management expenses</b>																		
Gross - Direct Business	R0710	28,668	45,764	15,895			91,992	0	454,873	450,510		0	25,691					1,113,392
Gross - Proportional reinsurance accepted	R0720	0	0				0	0	0	0		1,156						1,156
Gross - Non-proportional reinsurance accepted	R0730													39,739	51,507	106,986	160,732	358,963
Reinsurers' share	R0740																	0
<b>Net</b>	<b>R0800</b>	<b>28,668</b>	<b>45,764</b>	<b>15,895</b>			<b>91,992</b>	<b>0</b>	<b>454,873</b>	<b>450,510</b>		<b>1,156</b>	<b>25,691</b>	<b>39,739</b>	<b>51,507</b>	<b>106,986</b>	<b>160,732</b>	<b>1,473,512</b>
<b>Claims management expenses</b>																		
Gross - Direct Business	R0810	6,387	88,240	472,434			207,402	117,982	2,732,377	837,961		694	60,476					4,523,953
Gross - Proportional reinsurance accepted	R0820	0	0				0	2,685	0	0		0						2,685
Gross - Non-proportional reinsurance accepted	R0830													54,554	-2,018	144,115	125,430	322,082
Reinsurers' share	R0840																	0
<b>Net</b>	<b>R0900</b>	<b>6,387</b>	<b>88,240</b>	<b>472,434</b>			<b>207,402</b>	<b>120,666</b>	<b>2,732,377</b>	<b>837,961</b>		<b>694</b>	<b>60,476</b>	<b>54,554</b>	<b>-2,018</b>	<b>144,115</b>	<b>125,430</b>	<b>4,848,719</b>
<b>Acquisition expenses</b>																		
Gross - Direct Business	R0910	9,543,851	3,784,537	2,493,304			3,737,225	1,810,416	57,309,425	28,134,657		48,937	2,626,319					109,488,669
Gross - Proportional reinsurance accepted	R0920	0	70				4,103	2,319,953	303,834			193,068						2,819,888
Gross - Non-proportional reinsurance accepted	R0930													2,201,526	4,628,256	-233,386	10,083,129	16,679,525
Reinsurers' share	R0940	-5,269	2,266,075	412			140,696	337,589	11,090,539	301,890		-40	2,875,149	821,915	-1,247,516	-573,325	1,477,861	17,485,976
<b>Net</b>	<b>R1000</b>	<b>9,549,120</b>	<b>1,518,392</b>	<b>2,492,892</b>			<b>3,600,632</b>	<b>3,791,780</b>	<b>46,522,720</b>	<b>27,832,767</b>		<b>242,044</b>	<b>-248,830</b>	<b>1,379,611</b>	<b>5,875,771</b>	<b>339,939</b>	<b>8,605,268</b>	<b>111,502,106</b>
<b>Overhead expenses</b>																		
Gross - Direct Business	R1010	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Gross - Proportional reinsurance accepted	R1020	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Gross - Non-proportional reinsurance accepted	R1030																	
Reinsurers' share	R1040	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>Net</b>	<b>R1100</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Other expenses</b>																		
<b>R1200</b>																		910,519
<b>Total expenses</b>	<b>R1300</b>																	<b>194,239,195</b>

# Premiums, claims and expenses by country

Entity: HCC\_GRP - HCC Insurance Holdings (International) Limited

Scenario: 2017 Solvency II - Actual

Period: Annual

Category: Solvency II: Statutory Account

Currency: USD - US Dollars

EIOPA QRT: S.05.02.01

		Home Country	Top 5 countries (by amount of gross premiums written) - non-life obligations					Total Top 5 and home country
		C0010	C0020	C0030	C0040	C0050	C0060	C0070
			Spain (ES)	Ireland (IE)	France (FR)	Italy (IT)	Japan (JP)	
R0010	C0080	C0090	C0100	C0110	C0120	C0130	C0140	
<b>Premiums written</b>								
Gross - Direct Business	R0110	288,400,583	90,743,903	14,921,170	7,783,428	5,665,389	5,876	407,520,349
Gross - Proportional reinsurance accepted	R0120	2,798,452	-1,450	0	5	0	329,371	3,126,378
Gross - Non-proportional reinsurance accepted	R0130	15,531,905	846,254	2,547,162	2,753,086	4,606,225	9,664,301	35,948,932
Reinsurers' share	R0140	55,986,750	16,717,433	3,188,446	1,923,202	1,874,849	1,825,190	81,515,870
<b>Net</b>	<b>R0200</b>	<b>250,744,190</b>	<b>74,871,274</b>	<b>14,279,885</b>	<b>8,613,317</b>	<b>8,396,765</b>	<b>8,174,358</b>	<b>365,079,789</b>
<b>Premium earned</b>								
Gross - Direct Business	R0210	283,352,661	92,643,925	18,066,410	6,739,281	5,811,284	-17,480	406,596,082
Gross - Proportional reinsurance accepted	R0220	3,210,721	-1,192	0	2	0	141,425	3,350,956
Gross - Non-proportional reinsurance accepted	R0230	13,852,379	497,168	61,121	85,434	5,430,322	16,532,438	36,458,862
Reinsurers' share	R0240	57,133,920	17,713,610	3,447,545	1,297,944	2,137,961	3,167,758	84,898,739
<b>Net</b>	<b>R0300</b>	<b>243,281,840</b>	<b>75,426,291</b>	<b>14,679,986</b>	<b>5,526,773</b>	<b>9,103,646</b>	<b>13,488,625</b>	<b>361,507,161</b>
<b>Claims incurred</b>								
Gross - Direct Business	R0310	135,234,395	49,555,643	1,421,274	2,415,077	1,142,315	43,392	189,812,097
Gross - Proportional reinsurance accepted	R0320	1,755,450	24,507	0	11,872	77,888	798,217	2,667,934
Gross - Non-proportional reinsurance accepted	R0330	928,706	176,066	208,223	197,963	966,915	352,228	2,830,101
Reinsurers' share	R0340	29,145,666	10,514,742	344,354	554,710	462,193	252,288	41,273,953
<b>Net</b>	<b>R0400</b>	<b>108,772,886</b>	<b>39,241,473</b>	<b>1,285,143</b>	<b>2,070,202</b>	<b>1,724,925</b>	<b>941,549</b>	<b>154,036,178</b>
<b>Changes in other technical provisions</b>								
Gross - Direct Business	R0410	0	0	0	0	0	0	0
Gross - Proportional reinsurance accepted	R0420	0	0	0	0	0	0	0
Gross - Non-proportional reinsurance accepted	R0430	0	0	0	0	0	0	0
Reinsurers' share	R0440	0	0	0	0	0	0	0
<b>Net</b>	<b>R0500</b>							<b>0</b>
<b>Expenses incurred</b>	<b>R0550</b>	101,697,160	32,595,859	6,344,031	2,388,423	3,934,187	5,829,179	152,788,840
<b>Other expenses</b>	<b>R1200</b>							910,519.23
<b>Total expenses</b>	<b>R1300</b>							<b>153,699,359</b>



# Own funds (Group)

Entity: HCC\_GRP - HCC Insurance Holdings (International) Limited

Scenario: 2017 Solvency II - Actual

Period: Annual

Currency: USD - US Dollars

EIOPA QRT: S.23.01.22

		Total	Tier 1 -	Tier 1 -	Tier 2	Tier 3
		C0010	unrestricted	restricted	C0040	C0050
			C0020	C0030		
<b>Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation (EU) 2015/35</b>						
Ordinary share capital (gross of own shares)	R0010	249,237,373	249,237,373			
Non-available called but not paid in ordinary share capital at group level	R0020					
Share premium account related to ordinary share capital	R0030					
Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings	R0040					
Subordinated mutual member accounts	R0050					
Non-available subordinated mutual member accounts at group level	R0060					
Surplus funds	R0070					
Non-available surplus funds at group level	R0080					
Preference shares	R0090					
Non-available preference shares at group level	R0100					
Share premium account related to preference shares	R0110					
Non-available share premium account related to preference shares at group level	R0120					
Reconciliation reserve	R0130	459,587,441	459,587,441			
Subordinated liabilities	R0140					
Non-available subordinated liabilities at group level	R0150					
An amount equal to the value of net deferred tax assets	R0160					
The amount equal to the value of net deferred tax assets not available at the group level	R0170					
Other own fund items approved by the supervisory authority as basic own funds not specified above	R0180					
Non available own funds related to other own funds items approved by supervisory authority	R0190					
Minority interests (if not reported as part of a specific own fund item)	R0200					
Non-available minority interests at group level	R0210					
<b>Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds</b>						
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	R0220					
<b>Deductions</b>						
Deductions for participations in financial and credit institutions	R0230					
whereof deducted according to art 228 of the Directive 2009/138/EC	R0240					
Deductions for participations where there is non-availability of information (Article 229)	R0250					
Deduction for participations included by using D&A when a combination of methods is used	R0260					
Total of non-available own fund items	R0270					
Total deductions	R0280					
<b>Total basic own funds after deductions</b>	<b>R0290</b>	<b>708,824,814</b>	<b>708,824,814</b>			
<b>Ancillary own funds</b>						
Unpaid and uncalled ordinary share capital callable on demand	R0300					
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	R0310					
Unpaid and uncalled preference shares callable on demand	R0320					
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	R0350					
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	R0340					
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0360					
Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0370					
Non available ancillary own funds at group level	R0380					
Other ancillary own funds	R0390					
<b>Total ancillary own funds</b>	<b>R0400</b>					
<b>Own funds of other financial sectors</b>						

		Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
<b>Reconciliation reserve</b>	R0410					
Institutions for occupational retirement provision	R0420					
Non regulated entities carrying out financial activities	R0430					
Total own funds of other financial sectors	R0440					
<b>Own funds when using the D&amp;A, exclusively or in combination of method 1</b>						
Own funds aggregated when using the D&A and combination of method	R0450					
Own funds aggregated when using the D&A and combination of method net of IGT	R0460					
<b>Total available own funds to meet the consolidated group SCR (excluding own funds from other financial sector and from the undertakings included via D&amp;A )</b>	<b>R0520</b>	<b>708,824,814</b>	<b>708,824,814</b>			
<b>Total available own funds to meet the minimum consolidated group SCR</b>	<b>R0530</b>	<b>708,824,814</b>	<b>708,824,814</b>			
<b>Total eligible own funds to meet the consolidated group SCR (excluding own funds from other financial sector and from the undertakings included via D&amp;A )</b>	<b>R0560</b>	<b>708,824,814</b>	<b>708,824,814</b>			
<b>Total eligible own funds to meet the minimum consolidated group SCR</b>	<b>R0570</b>	<b>708,824,814</b>	<b>708,824,814</b>			
<b>Minimum consolidated Group SCR</b>	<b>R0610</b>	<b>121,364,393</b>				
<b>Ratio of Eligible own funds to Minimum Consolidated Group SCR</b>	<b>R0650</b>	<b>584%</b>				
<b>Total eligible own funds to meet the group SCR (including own funds from other financial sector and from the undertakings included via D&amp;A )</b>	<b>R0660</b>	<b>708,824,814</b>	<b>708,824,814</b>			
<b>Group SCR</b>	<b>R0680</b>	<b>341,572,079</b>				
<b>Ratio of Eligible own funds to group SCR including other financial sectors and the undertakings included via D&amp;A</b>	<b>R0690</b>	<b>208%</b>				
		<b>C0060</b>				
<b>Reconciliation reserve</b>						
Excess of assets over liabilities	R0700	<b>708,824,814</b>				
Own shares (held directly and indirectly)	R0710					
Foreseeable dividends, distributions and charges	R0720					
Other basic own fund items	R0730	<b>249,237,373</b>				
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	R0740					
Other non available own funds	R0750					
<b>Reconciliation reserve before deduction for participations in other financial sector</b>	<b>R0760</b>	<b>459,587,441</b>				
<b>Expected profits</b>						
Expected profits included in future premiums (EPIFP) - Life Business	R0770					
Expected profits included in future premiums (EPIFP) - Non- life business	R0780	32,014,805	32,014,805			
<b>Total Expected profits included in future premiums (EPIFP)</b>	<b>R0790</b>	<b>32,014,805</b>	<b>32,014,805</b>			

## Solvency Capital Requirement - for groups on Standard Formula

Entity: HCC\_GRP - HCC Insurance Holdings (International) Limited

Scenario: 2017 Solvency II - Actual

Period: Annual

Category: Solvency II: Company

Currency: USD - US Dollars

EIOPA QRT: S.25.01.22

		Gross solvency capital requirement	USP	Simplifications
		C0040	C0080	C0090
Market risk	R0010	81,327,652		
Counterparty default risk	R0020	40,970,863		
Life underwriting risk	R0030			
Health underwriting risk	R0040	19,409,683		
Non-life underwriting risk	R0050	290,704,989		
Diversification	R0060	-86,344,616		
Intangible asset risk	R0070			
<b>Basic Solvency Capital Requirement</b>	<b>R0100</b>	<b>346,068,571</b>		

### Calculation of Solvency Capital Requirement

		C0100
Operational risk	R0130	23,342,186
Loss-absorbing capacity of technical provisions	R0140	
Loss-absorbing capacity of deferred taxes	R0150	-27,838,678
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	R0160	
<b>Solvency capital requirement excluding capital add-on</b>	<b>R0200</b>	<b>341,572,079</b>
Capital add-on already set	R0210	
<b>Solvency capital requirement</b>	<b>R0220</b>	<b>341,572,079</b>
<b>Other information on SCR</b>		
Capital requirement for duration-based equity risk sub-module	R0400	
Total amount of Notional Solvency Capital Requirements for remaining part	R0410	
Total amount of Notional Solvency Capital Requirements for ring fenced funds	R0420	
Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	R0430	
Diversification effects due to RFF nSCR aggregation for article 304	R0440	
Minimum consolidated group solvency capital requirement	R0470	
<b>Information on other entities</b>		
Capital requirement for other financial sectors (Non-insurance capital requirements)	R0500	
Capital requirement for other financial sectors (Non-insurance capital requirements) - Credit institutions, investment firms and financial institutions, alternative investment funds managers, UCITS management companies	R0510	
Capital requirement for other financial sectors (Non-insurance capital requirements) - Institutions for occupational retirement provisions	R0520	
Capital requirement for other financial sectors (Non-insurance capital requirements) - Capital requirement for non-regulated entities carrying out financial activities	R0530	
Capital requirement for non-controlled participation requirements	R0540	
Capital requirement for residual undertakings	R0550	
<b>Overall SCR</b>		
SCR for undertakings included via D and A	R0560	
<b>Solvency capital requirement</b>	<b>R0570</b>	<b>341,572,079</b>

### Undertakings in the scope of the group

Entity: HCC\_GRP - HCC Insurance Holdings (International) Limited  
 Scenario: 2017 Solvency II - Actual  
 Period: Annual  
 Currency: USD - US Dollars  
 EIOPA QRT: S.32.01.22

Country	Identification code of the undertaking	Type of code of the ID of the undertaking	Legal Name of the undertaking	Type of undertaking	Legal form	Category (mutual/non mutual)	Supervisory Authority	Total Balance Sheet (for (re)insurance undertakings)	Total Balance Sheet (for other regulated undertakings)	Total Balance Sheet (non-regulated undertakings)	Written premiums net of reinsurance ceded under IFRS or local GAAP for (re)insurance undertakings	Turn over defined as the gross revenue under IFRS or local GAAP for other types of undertakings or insurance holding companies	Underwriting performance	Investment performance	Total performance	Accounting standard	% capital share	% used for the establishment of consolidated accounts	% voting rights	Other criteria	Level of influence	Proportional share used for group solvency calculation	Yes/No	Date of decision if art. 214 is applied	Method used and under method 1, treatment of the undertaking
C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0170	C0180	C0190	C0200	C0210	C0220	C0230	C0240	C0250	C0260
GB	213800DGPY4ZCTVJVQ23	1 - LEI	HCC International Insurance Co PLC	2 - Non life insurance undertaking	companies limited by shares or by guarantee or unlimited	2 - Non-mutual	The Prudential Regulation Authority	1,691,796,659			460,325,617		96,128,737	40,015,583	61,302,427	2 - Local GAAP	100.00%	100.00%	100.00%		1 - Dominant		1 - Included in the scope		1 - Method 1: Full consolidation
GB	213800LMAZPELOFYK161	1 - LEI	HCC Insurance Holdings (International) Limited	5 - Insurance holding company as defined in Article 212(1) (f) of Directive 2009/138/EC	companies limited by shares or by guarantee or unlimited	2 - Non-mutual				276,908,134					-9,409	2 - Local GAAP	100.00%	100.00%	100.00%		1 - Dominant		1 - Included in the scope		1 - Method 1: Full consolidation
GB	213800DGPY4ZCTVJVQ23GB10204	2 - Specific code	Pepys Holdings Limited	10 - Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	companies limited by shares or by guarantee or unlimited	2 - Non-mutual				241,156,043		517			-47,121	2 - Local GAAP	100.00%	100.00%	100.00%		1 - Dominant		1 - Included in the scope		1 - Method 1: Full consolidation
GB	213800DGPY4ZCTVJVQ23GB30202	2 - Specific code	HCCI Credit Services Limited	10 - Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	companies limited by shares or by guarantee or unlimited	2 - Non-mutual				3,136,901		3,445,277			1,908,011	2 - Local GAAP	100.00%	100.00%	100.00%		1 - Dominant		1 - Included in the scope		1 - Method 1: Full consolidation
GB	213800DGPY4ZCTVJVQ23J030301	2 - Specific code	Rattner Mackenzie Limited	10 - Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	companies limited by shares or by guarantee or unlimited	2 - Non-mutual				1,825,870		90,969			77,183	2 - Local GAAP	100.00%	100.00%	100.00%		1 - Dominant		1 - Included in the scope		1 - Method 1: Full consolidation
GB	213800DGPY4ZCTVJVQ23GB10101	2 - Specific code	HCC Diversificacion y Soluciones S.L.	10 - Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	companies limited by shares or by guarantee or unlimited	2 - Non-mutual				606,582		589,489			240,768	2 - Local GAAP	100.00%	100.00%	100.00%		1 - Dominant		1 - Included in the scope		1 - Method 1: Full consolidation
GB	213800DGPY4ZCTVJVQ23GB30215	2 - Specific code	Radius Underwriting Limited	10 - Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	companies limited by shares or by guarantee or unlimited	2 - Non-mutual	The Prudential Regulation Authority			135,626		17			-20,275	2 - Local GAAP	55.00%	55.00%	55.00%		1 - Dominant		1 - Included in the scope		1 - Method 1: Full consolidation

## **Section G – ANNEX: Financial Statements for HCCII (the Company)**

This Annex contains the audited financial statements for HCC International Insurance Company Plc ('the Company') in respect of the year ended 31 December 2017.



**TOKIOMARINE**  
**HCC**

**HCC INTERNATIONAL INSURANCE COMPANY PLC**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

Year ended 31 December 2017

1 Aldgate  
London EC3N 1RE  
Registered number: 1575839



**TOKIO MARINE**  
**HCC**

**HCC INTERNATIONAL INSURANCE COMPANY PLC**

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**TOKIO MARINE**  
**HCC**

**HCC INTERNATIONAL INSURANCE COMPANY PLC**

**COMPANY INFORMATION**

**Directors:**

S A Button  
B J Cook (Chief Executive Officer)  
T J G Hervy  
N I Hutton-Penman  
H Ishii (non-executive)  
K L Letsinger  
N C Marsh (non-executive Chairman)  
H-D Rohlf (non-executive)  
C Scarr (non-executive)  
G R A White (appointed 21 December 2017)

**Company Secretary:**

D R Feldman  
J L Holliday  
N J Walklett

**Registered Number:**

1575839

**Registered Office:**

1 Aldgate  
London EC3N 1RE

**Independent Auditors:**

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





**HCC INTERNATIONAL INSURANCE COMPANY PLC**  
**STRATEGIC REPORT**

The directors of HCC International Insurance Company PLC ('HCCII' or 'the Company') present their strategic report for the year ended 31 December 2017.

**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.

HCCII'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 2017, TMHD had total assets of ¥23.3 trillion (December 2016: ¥22.1 trillion) and shareholders' equity of ¥3.9 trillion (December 2016: ¥3.4 trillion). TMHD's major insurance companies have a financial strength rating of A+ (Stable) from Standard & Poor's Financial Services LLC.

Tokio Marine HCC Insurance Holdings, Inc. (Tokio Marine HCC Group) is a subsidiary of TMHD. Given its strong capital position, it benefits from an S&P rating of AA-. Tokio Marine HCC International Group (Tokio Marine HCC International), which includes HCCII, Syndicate 4141 and Houston Casualty Company (London Branch) (HCL) is part of the Tokio Marine HCC Group and HCCII also has a standalone S&P rating of AA-.

The Company is the flagship carrier for Tokio Marine HCC Group's international operations. The Tokio Marine HCC International underwriters write business on the international platforms based on prescribed rules which determine which carrier is utilised. Licensing, distribution or client choice are the principle determinants of the platform utilised. The Company operates from a number of offices across the UK and also has branches in Spain, Ireland, France, Switzerland, Germany, Italy and Norway. The Company is authorised by the Prudential Regulation Authority and regulated by both the Financial Conduct Authority and the Prudential Regulation Authority.

Lines of business underwritten include Property Treaty, Property Direct and Facultative, Accident and Health, Energy and Marine (the London Market lines of business) and Professional Risks, Financial Lines, Credit and Political Risk Surety and Contingency (the International Specialty lines of business). Financial Lines business in the Spanish branch is underwritten through HCC Global Financial Products S.L. ('HCCG'), a wholly owned subsidiary of Tokio Marine HCC Group. The Company has continued to grow in recent years, despite difficult trading conditions, through organic growth of its more diversified Specialty and select areas of the London Market businesses. The Company benefits from use of the Tokio Marine franchise and will continue to add to its international product offerings.

**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 meet its target risk adjusted return on capital. Underwriting is concentrated in selected, narrowly defined, lines of business where consistent underwriting profit can be achieved. The Company's experienced underwriting personnel with access to, and expertise in, the insurance and reinsurance marketplace have enabled the Company to achieve its strategic objectives. The overall London Market rating environment for its lines of business has been extremely challenging in recent years as a result of excess capacity in the market leading to decreasing premium rates. These conditions have shown some improvement in late 2017 and early 2018 in response to an active 2017 catastrophe environment. The Specialty lines of business are also subject to the challenging rating conditions, however, they continue to grow organically due to a combination of unique distribution channels and product offering.

The Company continued to grow its core Specialty and London Market segments. Although the insurance and reinsurance markets experienced substantial catastrophe losses in 2017 from Hurricanes Harvey, Irma and Maria, the Company was not affected given its emphasis on European catastrophe and other world-wide exposures. This, combined with prior year reserve releases reflecting better than expected loss emergence resulted in profit from the London Market business. The core lines of the Specialty segment performed well and in line with or better than expectations. Additionally, the Credit and Political risk business, a long standing and consistent performing class of business, has experienced challenging results this year resulting from difficult market conditions.

The Company's AA- S&P rating remains a significant differentiator and a key selling point in many of the markets in which the Company operates, particularly in the Surety, Credit and Financial Lines.



The United Kingdom voted to leave European Union on 23 June 2016 and the subsequent triggering of Article 51 on 29 March 2017 presents the Company with the risk that it may no longer be licensed to write European risks currently underwritten through its European branches and in the London Market from 29 March 2019. Consequently, the Company has established a new European subsidiary based in Luxembourg, Tokio Marine Europe. S.A. (TME) and is currently awaiting authorisation from the Luxembourg insurance regulator. The Company anticipates successful completion of this and establishment of TME European branches by mid-2018 which will enable TME to begin underwriting in the second half of 2018. TME will also establish a UK branch for underwriting of European risks which may continue to be underwritten in the London Market after the UK exit from the EU. In addition to establishment of TME and its European branches, HCCII is undertaking the legal process (Part VII transfer) to transfer insurance and reinsurance contracts for which the Company is on risk or has unpaid claims as at 1 January 2019 from its current European branch network to the new TME branch network. It is anticipated that TME will also benefit from an S&P rating of AA-. Based on the above, the directors believe that the risks presented by the exit of the UK from the European Union are mitigated.

### **Results and Performance**

The Company made a net profit for the financial year of \$61.3m (2016: \$138.1m) and includes a balance on the technical account for general business of \$96.1m (2016: \$175.0m). Investment income of \$32.3m (2016: \$24.2m) has been recognised in the technical account. The technical account in 2016 included the release of the equalisation provision of \$96.2m which was no longer required under Solvency II effective from 1 January 2016.

The balance on the technical account excluding investment income (and the release of the equalisation provision in 2016) is \$63.8m (2016 \$54.6m). The \$9.2m increase in 2017 compared to 2016 was driven by the increase in London Market underwriting profits which are \$29.8m (2016: \$20.9m). This result reflected benign catastrophe experience which delivered higher Property Treaty profits as well as growth in net earned premium principally from organic growth of Property Treaty and Marine business, the latter driven by a new team who joined Tokio Marine HCC International in mid-2016.

The Specialty business profits of \$34.0m (2016: \$33.9m) are consistent with 2016. Performance of the current core specialty business is within expectations. Losses on the Lifestyle Travel Medical product, which was discontinued in 2017, were to some extent mitigated by reserve releases on other discontinued lines of business.

The loss ratio for 2017 was 4.2% higher than 2016 due to higher current accident year loss ratios on Credit and Financial Lines businesses reflecting a conservative view of current difficult market conditions. 2017 US catastrophes had no significant effect on the 2017 loss ratios. Prior accident year reserve releases totalled \$17.9m (2016: \$19.1m) reducing the loss ratio by 3.9% (2016: 4.4%).

The non-technical account includes items which in total reduced the balance on the technical account for general business by \$18.9m (2016; \$2.0m increase) and is comprised of a distribution from a subsidiary of \$8.0m (2016: \$ Nil), unrealised losses on investments of \$0.4m (2016: \$6.4m gain); \$20.0m loss from revaluation (2016: \$5.1m gain) and other charges of \$6.5m (2016: \$9.5m).



Key Performance Indicators	Description	2017	2016
Gross premiums written		\$563.1m	\$548.6m
Net premiums written	Net of reinsurance	\$460.3m	\$443.1m
Underwriting result	Balance on technical account (before investment income and equalisation provision)	\$63.8m	\$54.6m
Net loss ratio	Ratio of net incurred claims (excluding equalisation reserve) to net earned premiums	44.7%	40.5%
Net combined ratio	Ratio of total technical charges (before investment income and equalisation provision) to net earned premiums	86.0%	87.4%
Investment return	Total investment return (excluding FX from revaluation of investments)	\$40.0m	\$30.6m
Cash and investments	Excluding investment in subsidiaries and land and buildings	\$1,282.4m	\$1,172.1m
Total shareholder's funds		\$683.1m	\$627.0m

Overall, the directors are satisfied with the Company's operations and its financial position at 31 December 2017.

#### Gross Premiums Written

2017 gross premiums written increased by \$14.5m to \$563.1m (2016: \$548.6m). After eliminating the effect of stronger sterling against the US\$ in 2016 (on average in 2017 the dollar strengthened against sterling by 4.7% compared to 2016 but weakened against the Euro by 2.6%), underlying premium increased by \$23.8m. The \$23.8m increase was driven by the growth in the Specialty business largely due to Professional Risks, Credit and Surety, supported by an increase in London Market business which was principally from the new Marine team and organic growth in Property Treaty.

The foreign exchange effect on gross premiums written is shown in the table below:

Gross Premiums Written	2017	2016	Increase/(Decrease)		2016 GPW	Increase/(Decrease)	
	GPW	GPW			at 2017 rate	(excl. FX effect)	
	\$'m	\$'m	\$'m	% change	\$'m	\$'m	% change
Financial Lines	124.6	124.6	-	-%	126.1	(1.5)	(1.2)%
Professional Risks	124.8	112.0	12.8	11.4%	107.8	17.0	15.8%
Credit & Political Risk	99.5	79.4	20.1	25.3%	77.8	21.7	27.9%
Surety	80.4	76.2	4.2	5.5%	74.3	6.1	8.2%
Other	27.7	61.4	(33.7)	(54.9)%	58.9	(31.2)	(52.9)%
<b>Total Specialty Segment</b>	<b>457.0</b>	<b>453.6</b>	<b>3.4</b>	<b>0.7%</b>	<b>444.9</b>	<b>12.1</b>	<b>2.7%</b>
Marine & Energy	40.6	35.1	5.5	15.7%	34.9	5.7	16.3%
Property Treaty	52.3	45.4	6.9	15.2%	45.1	7.2	16.0%
Property D&F and A&H	13.2	14.5	(1.3)	(9.0)%	14.4	(1.2)	(8.3)%
<b>Total London Market</b>	<b>106.1</b>	<b>95.0</b>	<b>11.1</b>	<b>11.7%</b>	<b>94.4</b>	<b>11.7</b>	<b>12.4%</b>
<b>Total</b>	<b>563.1</b>	<b>548.6</b>	<b>14.5</b>	<b>2.6%</b>	<b>539.3</b>	<b>23.8</b>	<b>4.4%</b>



***Speciality***

**Financial Lines** gross premiums written remained stable at \$124.6m (2016: \$124.6m), albeit decreased slightly after taking account of the stronger Euro in 2017. The Financial Lines business includes principally Directors and Officers ('D&O') liability and Transaction Risk Insurance ('TRI') business with the overall line of business mix remaining stable year on year.

**Professional Risks** gross premiums written has increased 11.4% to \$124.8m (2016: \$112.0m), 15.8% after adjusting for foreign currency. The business includes Professional Indemnity and Liability business where organic growth through product development, new business initiatives and increased regional presence have continued year on year. The Professional Indemnity business is high volume, low premium business underwritten through regional brokers with a focus on client service, the target clients being 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 premiums written has increased 25.3% to \$99.5m (2016: \$79.4m), 27.9% after adjusting for foreign currency. The UK whole turnover Credit business where high service standards position the Company well with clients, has historically experienced good retention levels and this remains high. The Excess Credit and Political Risk business has maintained its market position with continued benefit from the Company's financial rating. The 2017 premium growth was similar in each of the two main business lines.

**Surety** gross premiums written has increased 5.5% to \$80.4m (2016: \$76.2m), 8.2% after adjusting for foreign currency. The Company's position in the market and its strong S&P rating provides good opportunities to sell performance bonds and other bond products supporting large multi-national companies involved in significant infrastructure projects. The strategy to target larger bonds continues to succeed and the Company is now expanding by way of participation agreements with a number of bank clients.

**Other** comprises principally the Lifestyle Travel Medical business written through coverholders in the UK which was discontinued from January 2017.

***London Market***

**Marine & Energy** gross premiums written increased 15.7% to \$40.6m (2016: \$35.1m) with little impact from currency. The Energy market conditions have remained soft for most of 2017 but an increase in premium has been achieved following the strengthening of the Marine underwriting team in mid-2016.

**Property Treaty** gross premiums written increased 15.2% to \$52.3m (2016: \$45.4m), with little impact from currency. Property catastrophe and Engineering have both increased over 2016, principally from organic growth.

**Property Direct & Facultative and Accident & Health** gross premiums decreased 9.0% to \$13.2m (2016: \$14.5m), with little impact from currency. The decrease is due to the continued soft market conditions which started to improve in Q4 2017 in response to 2017 US catastrophe experience.

**Investment Performance**

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

New England Asset Management was the investment manager for the US Dollar, Sterling, Euro and Swiss Franc 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 3.81 years (2016: 4.01 years). Equity shares which represented \$77.0m or 6.9% of the total portfolio at December 2016 were sold during Q1 2017 as part of a change in investment strategy.



**TOKIO MARINE**  
**HCC**

**HCC INTERNATIONAL INSURANCE COMPANY PLC**  
**STRATEGIC REPORT**

**Balance Sheet**

The balance sheet of the company shows total assets of \$1,965.5m (2016: \$1,834.7m) and shareholder's equity of \$683.1m (2016: \$627.0m). Of the total assets, \$1,282.4m, i.e. 65.2% (2016 \$1,172.1m, 63.9%) is represented by financial investments and cash at bank. Net technical liabilities from insurance contracts were \$681.8m (2016 \$598.7m).

**Future Outlook**

The Company continues to consider profitable opportunities in complimentary and new lines of business, through growth of teams, expansion into new territories, potential acquisitions and utilisation of the Tokio Marine global network and is well positioned to offer European clients coverage through its European subsidiary, TME when the UK exits the EU.

**Dividends**

Dividend paid during the year totalled \$nil (2016: \$nil). No final dividend is recommended.

On behalf of the board

A handwritten signature in blue ink, appearing to read 'BJ Cook'.

BJ Cook  
Chief Executive Officer

1 Aldgate  
London EC3N 1RE

27 March 2018





**HCC INTERNATIONAL INSURANCE COMPANY PLC**

**DIRECTORS' REPORT**

The directors present their Directors' Report and the audited financial statements of the Company for the year ended 31 December 2017.

**Directors**

The directors set out below have held office from 1 January 2017 to the date of this report unless otherwise stated:

S A Button  
B J Cook (Chief Executive Officer)  
T J G Hervy  
N I Hutton-Penman  
H Ishii (non-executive)  
K L Letsinger  
N C Marsh (non-executive Chairman)  
H-D Rohlf (non-executive)  
C Scarr (non-executive)  
G R A White (appointed 21 December 2017)

**Matters disclosed in the Strategic Report**

Required disclosures in the Directors' Report; Principal activities, location of branches outside the UK, recommended dividend (NIL) and the Future outlook have been disclosed in the Strategic Report.

**Independent Auditors**

In connection with new EU requirements, the Company's Board undertook a tender for the external audit services for the Company's financial year ending 31 December 2017. The evaluation criteria for the tender process focused primarily on audit quality and audit service quality (including pricing) as well as applicants' ability to demonstrate general capability, competence and insurance market experience. The Company invited five firms to tender and the Audit Committee considered the detailed proposals of two firms. The result of the tender process was that PricewaterhouseCoopers LLP was re-appointed as auditor of the Company in respect of both the annual UK GAAP financial statements and Solvency II regulatory returns.

**Directors' and Officers' Liability Insurance**

The Company has maintained insurance to cover director's and officers' liability as defined by section 236 of the Companies Act 2006.

**Principal Risks and Uncertainties**

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

**Going concern**

The Company's business activities, together with the factors likely to affect its future development performance and position are set out in the Strategic report.

The directors have a reasonable expectation the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

**Post Balance Sheet events**

On 8 February, 2018, the Company established a wholly owned subsidiary, TME, based in Luxembourg. It is currently in the application process with the Luxembourg insurance regulator and anticipates that it will be authorised to underwrite business from mid-2018.



## **Statement of directors' responsibilities in respect of the financial statements**

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

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, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", 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 the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; 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.

The directors 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 governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

In the case of each director in office at the date the Directors' Report is approved:

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

On behalf of the board

BJ Cook  
Chief Executive Officer

1 Aldgate  
London EC3N 1RE

27 March 2018

# *Independent auditors' report to the members of HCC International Insurance Company Plc*

## **Report on the audit of the financial statements**

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### **Opinion**

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

- give a true and fair view of the state of the Company's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the balance sheet as at 31 December 2017; the profit and loss account, the statement of other comprehensive income, the statement of changes in shareholders' equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

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### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Independence**

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

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

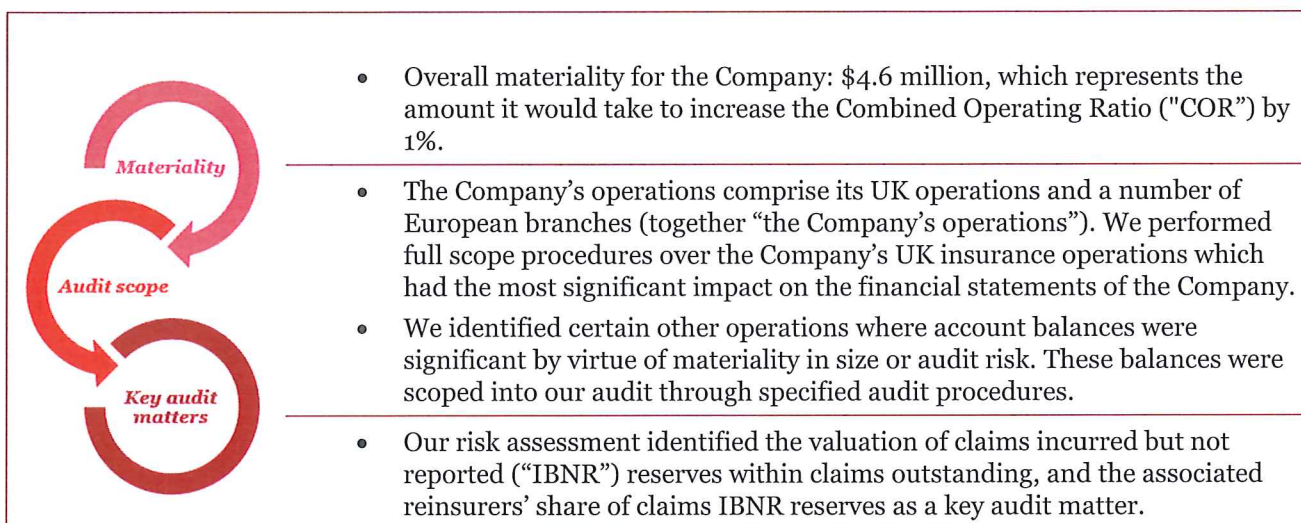
Other than those disclosed in Note 10 to the financial statements we have provided no non-audit services to the Company in the period from 1 January 2017 to 31 December 2017.

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## Our audit approach

### Overview



### The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

We gained an understanding of the legal and regulatory framework applicable to the Company's and the industry in which it operates, and considered the risk of acts by the Company, which were contrary to applicable laws and regulations, including fraud. We designed audit procedures to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

We focused on laws and regulations that could give rise to a material misstatement in the Company's financial statements, including but not limited to, the Companies Act 2006, the Prudential Regulation Authority's regulations, and UK tax legislation. Our tests included, but were not limited to, review of the financial statement disclosures to underlying supporting documentation, review of correspondence with the regulators, enquiries of management and review of internal audit reports in so far as they related to the financial statements.

There are inherent limitations in the audit procedures described above, and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it.

We did not identify any key audit matters relating to irregularities, including fraud. As in all of our audits, we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

### Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

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## **Key audit matter**

### ***Valuation of claims incurred but not reported ('IBNR') reserves and the associated reinsurers' share of claims IBNR reserves***

Claims IBNR reserves and the associated reinsurers' share of claims IBNR reserves are a subset of "Claims outstanding" within technical provisions, and they represent significant accounting estimates in the financial statements. As at 31 December 2017, the value of claims IBNR reserves and the associated reinsurers' share of reserves is \$433 million and \$154 million respectively as set out in Note 21. These estimates are included within gross claims outstanding of \$785 million and the reinsurers' share of claims outstanding of \$290 million respectively as set out in Note 21. The methodologies and assumptions used by the directors to estimate claims IBNR reserves and the associated reinsurers' share of claims IBNR reserves involves a significant degree of judgement.

Key areas of focus this year were:

- The underlying volatility attached to estimates for the larger classes of business, such as Financial Lines and Liability classes, where small changes in assumptions can lead to large changes in the level of the estimate held and the reported COR.
- The risk of inappropriate assumptions used in determining current year estimates for the Company. Given that limited data is available for some classes of business, there is greater reliance on expert judgement in their estimation.
- The consistency of the directors' approach to estimating claims IBNR reserves, the associated reinsurers' share of claims IBNR reserves and adjustments recognised to reflect uncertainty for specific claims.

## **How our audit addressed the key audit matter**

We have understood, evaluated and tested the design and operational effectiveness of relevant controls in place in respect of the valuation of claims IBNR reserves and the associated reinsurer's share of claims IBNR reserves, which included controls over the reconciliation of data from the underlying systems and the review and approval of the claims IBNR reserves and the associated reinsurers' share of claims IBNR reserves included within claims outstanding. On a sample basis we have agreed the underlying source data back to supporting documentation.

In performing our detailed audit work over the valuation of claims IBNR reserves and the associated reinsurer's share of claims IBNR reserves we used actuarial specialists. Our procedures included:

- Developing independent point estimates for classes of business considered to be higher risk, particularly focusing on the largest and most uncertain estimates, as at 31 August 2017 and performing roll-forward testing to 31 December 2017. For these classes, we compared our re-projected estimates to those booked by the directors to form part of our determination as to whether the overall estimate of claims IBNR reserves represented a reasonable estimate;
- Testing, for certain other classes of business, the methodology and assumptions used by the directors to derive the claims IBNR reserve estimates and assessing whether these produced reasonable estimates based on underlying facts and circumstances;
- Performing analytical audit procedures over the remaining classes of business to ascertain the reasonableness of the booked claims IBNR reserves; and
- Applying gross to net ratios against the estimated claims IBNR reserves to calculate the estimated reinsurers' share of claims IBNR reserves.

Based on the work performed we found that the claims IBNR reserves and the associated reinsurers' share of claims IBNR reserves were supported by the evidence we obtained.



### *How we tailored the audit scope*

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which it operates.

The Company is a UK domiciled insurer and is comprised of a number of operations in the UK and Europe. The Company's financial reporting includes transactions and balances derived from financial information from these operations. In determining the scope of the audit, we performed risk assessment procedures, which included understanding each of the Company's business operations, the internal control environment and process for the preparation of financial information. We identified which of those operations were of most significance to the audit of the Company based on the relative impact of the financial information included in the Company's financial statements derived from them. Based on the outputs of our risk assessment, we identified the UK operations as financially significant. We performed a full scope audit of these operations.

For the remaining operations, we identified certain account balances which were considered to be significant in size or audit risk at the financial statement line item level in relation to the Company, and scoped the audit of these by performing specified procedures.

Investment accounting is performed by a shared service centre in the United States of America. Consistent with above, we identified certain investment related account balances which were considered to be significant in size or audit risk at the financial statement line item level in relation to the Company, and scoped the audit of these by performing specified procedures.

Where the work was performed by other auditors, we determined the level of involvement we needed to have in their audit work to be able to conclude whether sufficient and appropriate audit evidence had been obtained as a basis for our opinion on the Company financial statements as a whole. We maintained regular and timely communication with the other audit teams, including performing video-calls, discussions and written communications as appropriate.

### *Materiality*

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

<b><i>Overall materiality</i></b>	\$4.6 million
<b><i>How we determined it</i></b>	Overall materiality for the Company: \$4.6 million, which represents the amount that would change the Combined Operating Ratio ("COR") by 1%.
<b><i>Rationale for benchmark applied</i></b>	In determining materiality, we considered financial metrics which we believe relevant to the primary users of the Company's financial statements. We concluded that the COR was the most relevant benchmark as it provides an indicator of relative performance of the Company and is a focus of the directors.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above \$0.2 million as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

## **Conclusions relating to going concern**

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

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

## **Reporting on other information**

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

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

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

### ***Strategic Report and Directors' Report***

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

## **Responsibilities for the financial statements and the audit**

### ***Responsibilities of the directors for the financial statements***

As explained more fully in the Statement of directors' responsibilities in respect of the financial statements set out on page 9, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.



### *Auditors' responsibilities for the audit of the financial statements*

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

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

### *Use of this report*

This report, including the opinions, has been prepared for and only for the 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.

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## **Other required reporting**

### **Companies Act 2006 exception reporting**

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 by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

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## **Appointment**

Following the recommendation of the Audit Committee, we were appointed by the directors on 14 July 2005 to audit the financial statements for the year ended 31 December 2005 and subsequent financial periods. The period of total uninterrupted engagement is 13 years, covering the years ended 31 December 2005 to 31 December 2017. There was a competitive tender process conducted by the Audit Committee during 2017. At the recommendation of the Audit Committee, we were re-appointed by the directors on 4 July 2017 as auditors for the year ended 31 December 2017.



Paul Pannell (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London  
27 March 2018



**HCC INTERNATIONAL INSURANCE COMPANY PLC**  
**PROFIT AND LOSS ACCOUNT**  
**For the year ended 31 December 2017**

	Note	2017 \$'000	2016 \$'000
<b>Technical account - general business</b>			
<i>Earned premiums, net of reinsurance</i>			
Gross premiums written	6	563,108	548,630
Outward reinsurance premiums		(102,782)	(105,550)
<b>Net premiums written</b>		<b>460,326</b>	<b>443,080</b>
Change in the gross provision for unearned premiums		(863)	2,103
Change in the provision for unearned premiums, reinsurers' share		(4,147)	(13,409)
<b>Change in the net provision for unearned premiums</b>		<b>(5,010)</b>	<b>(11,306)</b>
<b>Earned premiums, net of reinsurance</b>		<b>455,316</b>	<b>431,774</b>
Earned investment income transferred from the non-technical account	7	32,305	24,157
<b>Total technical income</b>		<b>487,621</b>	<b>455,931</b>
<i>Claims incurred, net of reinsurance</i>			
Claims paid:			
- gross amount		248,908	303,117
- reinsurers' share		(68,741)	(132,932)
<b>Net claims paid</b>		<b>180,167</b>	<b>170,185</b>
Change in the provision for claims:			
- gross amount		9,293	(8,135)
- reinsurers' share		14,177	12,668
<b>Change in the net provision for claims</b>		<b>23,470</b>	<b>4,533</b>
<b>Claims incurred, net of reinsurance</b>		<b>203,637</b>	<b>174,718</b>
Net operating expenses	8	187,855	202,448
Change in equalisation provision		-	(96,225)
<b>Other Technical charges</b>		<b>187,855</b>	<b>106,223</b>
<b>Total technical charges</b>		<b>391,492</b>	<b>280,941</b>
<b>Balance on the technical account for general business</b>	6	<b>96,129</b>	<b>174,990</b>

All results derive from continuing operations.



**HCC INTERNATIONAL INSURANCE COMPANY PLC**

**PROFIT AND LOSS ACCOUNT**

**For the year ended 31 December 2017**

<b>Non-technical account</b>	<b>Note</b>	<b>2017</b>	<b>2016</b>
		<b>\$'000</b>	<b>\$'000</b>
<b>Balance on the technical account for general business</b>		96,129	174,990
Investment income	7	45,584	27,878
Earned investment income transferred to general business technical account	7	(32,305)	(24,157)
Unrealised gains on investments	7	9,935	8,659
Unrealised losses on investments	7	(10,392)	(2,237)
Investment expenses and charges	7	(5,111)	(3,743)
Foreign exchange gains/(losses) from revaluation of investments	7	28,569	(25,086)
Foreign exchange (losses)/gains on revaluation of monetary items other than investments		(48,633)	30,203
Other charges	11	(6,510)	(9,546)
<b>Profit on ordinary activities before tax</b>		<b>77,266</b>	<b>176,961</b>
Tax on profit on ordinary activities	12	(15,962)	(38,863)
<b>Profit for the financial year</b>		<b>61,304</b>	<b>138,098</b>

**STATEMENT OF OTHER COMPREHENSIVE INCOME**

**For the year ended 31 December 2017**

	<b>Note</b>	<b>2017</b>	<b>2016</b>
		<b>\$'000</b>	<b>\$'000</b>
Profit for the financial year		61,304	138,098
Distributions from subsidiary undertakings	15	(8,022)	-
Revaluation of subsidiary undertakings	15	2,875	662
<b>Total comprehensive income</b>		<b>56,157</b>	<b>138,760</b>



**HCC INTERNATIONAL INSURANCE COMPANY PLC**

**BALANCE SHEET**

As at 31 December 2017

	Note	2017	2016
		\$'000	\$'000
<b>ASSETS</b>			
<b>Intangible assets</b>			
Goodwill	13	6,566	7,725
<b>Investments</b>			
Land and buildings	14	239	239
Investment in subsidiary undertakings	15	3,061	8,208
Other financial investments	16	1,229,757	1,110,198
		<u>1,233,057</u>	<u>1,118,645</u>
<b>Reinsurers' share of technical provisions</b>			
Provision for unearned premiums	21	54,611	51,385
Claims outstanding	21	289,504	281,675
		<u>344,115</u>	<u>333,060</u>
<b>Debtors</b>			
Debtors arising out of direct insurance operations			
- Policyholders		32,216	22,957
- Intermediaries		74,926	74,981
Debtors arising out of reinsurance operations		53,035	45,685
Other debtors	17	26,081	28,104
		<u>186,258</u>	<u>171,727</u>
<b>Other assets</b>			
Tangible assets	18	2,916	2,684
Deposits from third parties		56,356	57,812
Cash at bank and in hand		52,602	61,941
		<u>111,874</u>	<u>122,437</u>
<b>Prepayments and accrued income</b>			
Accrued interest and rent		8,586	7,903
Deferred acquisition costs	21	75,071	73,148
Other prepayments and accrued income		-	31
		<u>83,657</u>	<u>81,082</u>
<b>Total assets</b>		<u><u>1,965,527</u></u>	<u><u>1,834,676</u></u>





HCC INTERNATIONAL INSURANCE COMPANY PLC

**BALANCE SHEET**

As at 31 December 2017

	Note	2017	2016
		\$'000	\$'000
<b>LIABILITIES</b>			
<b>Capital and reserves</b>			
Called up share capital	19	233,242	233,242
Revaluation reserve		3,062	8,208
Profit and loss account		446,825	385,521
<b>Total shareholders' funds</b>		<u>683,129</u>	<u>626,971</u>
<b>Technical provisions</b>			
Provision for unearned premiums	21	306,236	281,353
Claims outstanding	21	784,851	712,314
		<u>1,091,087</u>	<u>993,667</u>
<b>Creditors</b>			
Creditors arising out of direct insurance operations		11,313	12,696
Creditors arising out of reinsurance operations		52,773	51,447
Other creditors including taxation and social security	20	35,834	48,250
Deposits from third parties		56,356	57,812
		<u>156,276</u>	<u>170,205</u>
<b>Accruals and deferred income</b>		35,035	43,833
<b>Total liabilities</b>		<u><u>1,965,527</u></u>	<u><u>1,834,676</u></u>

The financial statements on pages 16 to 49 were approved by the Board of Directors and were signed on its behalf by

  
K Letsinger  
Director

27 March 2018

Company registration number 1575839



**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**

**As at 31 December 2017**

	Called up share capital \$000	Revaluation reserve \$'000	Profit and loss account \$'000	Total shareholders' equity \$000
At 1 January 2017	233,242	8,208	385,521	626,971
Profit for the financial year	-	-	61,304	61,304
Issued share capital	-	-	-	-
Revaluation of subsidiary undertakings	-	2,876	-	2,876
Distributions from subsidiary undertakings	-	(8,022)	-	(8,022)
At 31 December 2017	<u>233,242</u>	<u>3,062</u>	<u>446,825</u>	<u>683,129</u>

	Called up share capital \$000	Revaluation reserve \$'000	Profit and loss account \$'000	Total shareholder's equity \$000
At 1 January 2016	224,405	7,546	247,423	479,374
Profit for the financial year	-	-	138,098	138,098
Issued share capital	8,837	-	-	8,837
Revaluation of subsidiary undertakings	-	662	-	662
At 31 December 2016	<u>233,242</u>	<u>8,208</u>	<u>385,521</u>	<u>626,971</u>

**1. General information**

HCC International Insurance Company PLC ('the Company') is authorised by the Prudential Regulation Authority ('PRA') and regulated by both the Financial Conduct Authority and the PRA. 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, Italy and Norway. 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.

**3. Summary of significant accounting policies**

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

**a. Basis of preparation**

These financial statements have been prepared in conformity with FRS 102 and 103. FRS 102 and 103 require 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.

In 2017, the Company recorded a change in estimate for earnings patterns on certain lines of Credit and Financial Lines businesses which increased the profit on ordinary activities before tax by \$2.0m. This result was comprised of an increase in net earned premium of \$18.3m less net incurred claims of \$10.9m and net earned acquisition costs of \$5.4m.

**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 15);
- ii. preparing a statement of cash flows; and
- iii. related party disclosures.
- iv. key management personnel compensation.

**d. Foreign currency**

The Company's accounting records are maintained in US Dollars, which is the Company's functional and presentation currency. Foreign currency transactions are recorded using the spot exchange rates at the dates of the transactions into the functional currency. At each period end, foreign currency monetary assets and liabilities are revalued using the closing rate. For this purpose all assets and liabilities arising from insurance contracts (including unearned premiums, deferred acquisition costs and unexpired risks provisions) are monetary items. Differences arising on the revaluation of foreign currency amounts to the functional currency are recognised in the non-technical profit and loss account.





**e. Insurance contracts**

**i. Classification of insurance and investment contracts**

The Company issues insurance contracts that transfer significant insurance 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 relates to business incepted during the year, together with adjustments made in the year to premiums written in prior accounting periods. Premiums are presented 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 of 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**

A 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. Gross loss provisions are calculated gross of any reinsurance recoveries.

The estimate of claims incurred but not reported ('IBNR') is generally subject to a greater degree of uncertainty than the estimate of the cost of settling claims already notified to the Company, where more information about a claim event is generally available. Claims IBNR may not become known to the insurer until many years after the event giving rise to the claim. 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 and 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 Risks 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 Risks and Financial Lines businesses, as with other lines, are derived initially from a combination of loss ratio based estimates followed after a period of time reflecting the longer tail by estimates based upon actual claims experience. Alternative projection methods may be employed. 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 or lines with unbalanced line size to premium is purchased on a shared basis for the international insurance entities. Reinsurance premiums on excess of loss programmes are allocated across the International platforms based on gross premiums written. 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**

Under the Solvency I regime an equalisation provision was required to be held over and above a company's technical provisions for certain classes of business. With the introduction of Solvency II there is no longer a requirement to hold the equalisation provision. In previous years, an amount was set aside as equalisation provision in accordance with the PRA's Handbook for the purpose of mitigating exceptionally high loss ratios in future years. With effect 1 January 2016 the equalisation provision balance was released to the General Technical Account.

**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**

Taxation expense for the period comprises current and deferred tax recognised in the year. Tax is recognised in the profit and loss account, except to the extent that it relates to items recognised in other comprehensive income or equity. In this case tax is also recognised in other comprehensive income or equity, respectively.

Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the year end.

Deferred tax arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements.

Deferred tax is recognised on all timing differences at the reporting date. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the timing difference.

**i. 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.

Goodwill

The Company's goodwill arose from the purchase of a book of Professional Indemnity business from another group company in 2006 (see Note 13) and was capitalised at cost and is being amortised over its useful economic life on a straight line basis over 15 years (see Note 11). 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.

**j. Land and buildings held as investments**

On an annual basis, the directors consider the open market valuation of the Company's land and buildings held as an investment. Should the valuation fall below its cost, the deficit is written off as impairment through the profit and loss account.

**k. 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%

**l. 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.

**m. 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 other comprehensive income, or, if an impairment expense, through the profit and loss account.

**n. 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.

**o. 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.

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

**Contingencies**

Contingent liabilities arise as a result of past events when:

- (i) it is not probable that there will be an outflow of resources or that the amount cannot be reliably measured at the reporting date; or



- (ii) When the existence will be confirmed by the occurrence or non-occurrence of uncertain future events not wholly within the 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.

**p. Financial instruments**

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

**q. 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 – at fair value through profit or loss; and
- Deposits with credit institutions - loans and receivables.

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

Financial assets designated at fair value through profit and loss at inception are those that are managed and whose performance is evaluated on a fair value basis. Information about these financial assets is provided internally on a fair value basis to the 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 at fair value through profit or loss. When a financial liability is recognised initially it is measured at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial liability. Loans and receivables are subsequently measured at amortised cost using the effective interest rate method. Receivables arising from insurance contracts are also classified in this category and are reviewed for impairment as part of the impairment review of loans and receivables. This basis of valuation is viewed by the directors as having prudent regard to the likely realisable value.

**r. Impairment of financial assets**

For financial assets not at fair value, 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.

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

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

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

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

**s. 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.

**t. 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 and realised returns on investments supporting the insurance technical provisions and related shareholder's funds.

**u. 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.

**4. Critical accounting judgements and estimation uncertainty**

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

**Significant judgements in applying the accounting policies**

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

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

The estimate of the ultimate liability arising from claims made under insurance contracts is the Company's most critical accounting estimate. The carrying amount of the claims outstanding, net of reinsurance, is \$495.3m (2016: \$430.6m). There are many sources of uncertainty that need to be considered in the estimate of the liability that the Company will ultimately pay for such claims. The level of provision has been set on the basis of the information that is currently available, including potential outstanding loss advices, experience of development of similar claims, historical experience, case law and legislative and judicial actions.

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

**ii. Fair value of financial instruments**

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

If quoted prices are unavailable, observable prices for recent arm's length transactions for an identical asset are used to determine its fair value. The carrying value of these instruments is \$1,200.0m (2016: \$1,015.7m), see Note 5.5 for pricing basis. 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 (i), goodwill is capitalised at cost and amortised over its useful economic life on a straight line basis over 15 years. 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 net written premium is \$68.5m (2016: \$32.3m).





## **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 maintains a risk register and categorises its risks into six areas: Insurance; Strategic, Regulatory and Group; Market; Operational; Credit; and Liquidity. 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 including delegated authorities, reinsurance purchasing, claims management and reserving. Each element is considered below.

#### **i. Underwriting risk**

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

The Company manages and models 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 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 ('PML') and modelled return period events) in certain territories as well as a range of events such as natural catastrophes and specific scenarios which may result in large industry losses. The aggregate 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 included within 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 over placed 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 on a class of business basis, modelling catastrophe, large and attritional losses separately.

Consideration is given to a number of factors when setting minimum retention including the Annual Aggregate Loss ('AAL') for catastrophe exposed lines. Where market opportunity allows, additional reinsurance is purchased. Quota share and facultative reinsurance is also utilised where considered appropriate. A TM HCC reinsurance approval group 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 the Company's 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 claim 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 on a quarterly basis (more frequently if catastrophic events require). The membership of the IBNR Committee is comprised of executives, actuarial, claims and finance representatives. A fundamental part of the reserving process involves information from and recommendations by each underwriting team for each underwriting year and reserving class of business. These estimates are compared to the actuarial estimates (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 best estimate.

The actuarial reserving team uses a range of recognised techniques to project current paid and incurred claims and monitors claim development patterns. This analysis is then supplemented by a variety of tools including back testing, scenario testing, sensitivity testing and stress testing.

Gross and net development triangles of the estimate of ultimate claim cost for claims notified in a given year are presented below and give an indication of the accuracy of the Company's estimation technique for claims payments. Data has been translated using 31 December 2017 foreign exchange rates throughout the triangle.

Loss development triangles – GROSS	Accident year							TOTAL
	2011	2012	2013	2014	2015*	2016	2017	
Ultimate claims and cumulative payments	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
End of reporting year	243,029	150,170	184,373	158,396	443,343	254,217	269,462	
- one year later*	247,930	119,364	197,946	162,142	513,276	266,938		
- two years later	235,003	128,783	195,698	136,696	545,664			
- three years later	230,291	130,533	177,300	142,678				
- four years later	210,602	141,710	169,761					
- five years later	206,034	135,095						
- six years later	202,320							
Current estimate of ultimate claims	202,320	135,095	169,761	142,678	545,664	266,938	269,462	
Cumulative payments to date	(180,319)	(107,164)	(129,917)	(78,334)	(275,178)	(140,432)	(71,896)	
Liability recognised in the balance sheet	22,001	27,931	39,844	64,344	270,486	126,506	197,566	748,678
Provision in respect of previous years								36,173
<b>Total provision included in the balance sheet</b>								<b>784,851</b>



Loss development triangles – NET	Accident year							TOTAL
	2011	2012	2013	2014	2015*	2016	2017	
Ultimate claims and cumulative payments	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
End of reporting year	126,852	116,449	157,760	120,484	242,579	185,120	208,081	
- one year later*	127,950	115,644	155,085	121,459	254,131	191,284		
- two years later	116,748	103,472	144,853	101,608	260,112			
- three years later	117,508	99,176	138,610	110,095				
- four years later	112,666	95,958	137,898					
- five years later	110,496	107,170						
- six years later	108,716							
Current estimate of ultimate claims	108,716	107,170	137,898	110,095	260,112	191,284	208,081	
Cumulative payments to date	(94,919)	(83,233)	(100,691)	(67,106)	(130,028)	(106,972)	(65,705)	
Liability recognised in the balance sheet	13,797	23,937	37,207	42,989	130,084	84,312	142,376	474,702
Provision in respect of previous years								20,645
Total provision included in the balance sheet								495,347

\*The increase in the 2015 accident year reserves includes a portfolio transfer arising from the merger of the company's subsidiary, HCCE, effective 1 April 2015.

## 5.2 Strategic, regulatory and group risk

The Company manages strategic, regulatory and group risks together. Each element is considered below:

### i. Strategic risk

This is the risk that the Company's strategy is inappropriate or that the Company is unable to implement its strategy. Where an event exceeds 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.

### ii. Regulatory risk

Regulatory 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. Regulatory risk includes capital management risk.





### **Capital management**

The Company estimates its 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, the Company is currently outside of the PRA Internal Model Approval Process ('IMAP') and since 1 January 2016 has measured 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 against the Company's Solvency II Available Assets to monitor its Solvency. Given the inherent volatility of the SF SCR and Solvency II Available Assets, the Company carries an amount in excess of the regulatory minimum. At 31 December 2017 Solvency II Available Assets are in excess of 200% of the regulatory minimum (2016 - 197%).

### **iii. Group risk**

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

#### **a. Contagion**

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

#### **b. Reputation**

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

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

### **5.3 Market risk**

Market risk arises where the value of assets and liabilities or future cash flows change as a result of fluctuations in economic variables, such as movements in foreign exchange rates, interest rates and market prices. Managing investment risk as a whole is fundamental to the operation and development of the Company's investment strategy key to the investment of Company assets.

The investment strategy is developed by reference to an investment risk budget, which is reviewed annually by the directors as part of the overall risk budgeting framework of the business. In 2017, the investment risk budget was confirmed that the amount of an investment loss, at the 1-in-200 Tail Value at Risk (TVaR) level, would be no more than 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, New England Asset Management Ltd as part of the Investment Committee's annual review of its risk appetite. The investment risk appetite for 2017 is consistent with 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. Internal model output is used to assess potential investment downsides, at different confidence levels, including '1 in 200' year event, which reflects Solvency II modelling requirements. In addition, the Company undertakes 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.



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ESG outputs are regularly validated against actual market conditions, but (as noted above) the Company also uses 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 when possible the Company generally hedges currency monetary liabilities (excluding unearned premium and deferred acquisition costs) with assets in those same currencies. Excess assets are generally held in US Dollars. The effect of this on foreign exchange risk is that the Company is mainly exposed to revaluation FX gains/losses of unmatched non-US Dollar denominated positions.

The Company operates in five main currencies: US Dollars; Sterling; 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 at the US Dollar spot rate. The following table summarises the carrying value of total assets and total liabilities and net profit, converted to US Dollars, categorized by the Company's main currencies

FX risk exposure	AUD \$	CAD \$	CHF Fr	EUR €	GBP £	Subtotal	USD \$	Total
31 December 2017	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Total assets	19,817	5,556	23,852	381,226	405,574	836,025	1,129,502	1,965,527
Total liabilities	(35,291)	(436)	(18,642)	(430,203)	(480,191)	(964,763)	(317,635)	(1,282,398)
<b>Net assets</b>	<b>(15,474)</b>	<b>5,120</b>	<b>5,210</b>	<b>(48,977)</b>	<b>(74,617)</b>	<b>(128,738)</b>	<b>811,867</b>	<b>683,129</b>
<b>Net profit/(loss)</b>	<b>(10,535)</b>	<b>3,565</b>	<b>(4,558)</b>	<b>(7,224)</b>	<b>7,333</b>	<b>(11,419)</b>	<b>72,723</b>	<b>61,304</b>

FX risk exposure	AUD \$	CAD \$	CHF Fr	EUR €	GBP £	Subtotal	USD \$	Total
31 December 2016	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Total assets	23,206	2,793	27,244	330,100	328,445	711,788	1,122,888	1,834,676
Total liabilities	(28,145)	(1,238)	(17,476)	(371,854)	(402,374)	(821,087)	(386,618)	(1,207,705)
<b>Net assets</b>	<b>(4,939)</b>	<b>1,555</b>	<b>9,768</b>	<b>(41,754)</b>	<b>(73,929)</b>	<b>(109,299)</b>	<b>736,270</b>	<b>626,971</b>
<b>Net profit/(Loss)</b>	<b>(212)</b>	<b>(961)</b>	<b>6,324</b>	<b>12,780</b>	<b>(9,620)</b>	<b>8,311</b>	<b>129,787</b>	<b>138,098</b>

**Sensitivity analysis**

Fluctuations in the Company's operating currencies against US Dollars, with everything else staying the same, would result in a change to net profit after tax 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 Australian Dollar, Canadian Dollar, Swiss Franc, the Euro, and Sterling, simultaneously.

FX risk exposure - sensitivity	Impact on profit after tax		Impact on net assets	
	2017	2016	2017	2016
Change in exchange rate of Canadian Dollar, Australian Dollar, Euro and Sterling, relative to US Dollar	\$'000	\$'000	\$'000	\$'000
US Dollar weakens 30% against other currencies	2,775	(1,995)	(38,621)	(32,789)
US Dollar weakens 20% against other currencies	1,850	(1,330)	(25,748)	(21,860)
US Dollar weakens 10% against other currencies	925	(665)	(12,874)	(10,930)
US Dollar strengthens 10% against other currencies	(925)	665	12,874	10,930
US Dollar strengthens 20% against other currencies	(1,850)	1,330	25,748	21,860
US Dollar strengthens 30% against other currencies	(2,775)	1,995	38,621	32,789





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**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. The Company's investment strategy reflects the nature of the Company's 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 the Company believes this gives a better indication than maturity of the likely sensitivity of the Company's investment portfolio to changes in interest rates. The 2016 comparative data has been restated to reflect the underlying assets.

<b>Investments and cash - duration</b>	<b>&lt;1 yr</b>	<b>1-2 yrs</b>	<b>2-3 yrs</b>	<b>3-4 yrs</b>	<b>4-5 yrs</b>	<b>5-10 yrs</b>	<b>&gt;10 yrs</b>	<b>Total</b>
<b>31 December 2017</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Variable yield securities	28,550	-	-	-	-	-	-	28,550
Debt securities	237,567	127,286	132,656	250,965	184,825	70,106	197,802	1,201,207
Equity securities	-	-	-	-	-	-	-	-
<b>Total other financial investments</b>	<b>266,117</b>	<b>127,286</b>	<b>132,656</b>	<b>250,965</b>	<b>184,825</b>	<b>70,106</b>	<b>197,802</b>	<b>1,229,757</b>
Deposits from third parties	56,356	-	-	-	-	-	-	56,356
Cash at bank	52,602	-	-	-	-	-	-	52,602
<b>Total</b>	<b>375,075</b>	<b>127,286</b>	<b>132,656</b>	<b>250,965</b>	<b>184,825</b>	<b>70,106</b>	<b>197,802</b>	<b>1,338,715</b>

<b>Investments and cash - duration</b>	<b>&lt;1 yr</b>	<b>1-2 yrs</b>	<b>2-3 yrs</b>	<b>3-4 yrs</b>	<b>4-5 yrs</b>	<b>5-10 yrs</b>	<b>&gt;10 yrs</b>	<b>Restated Total</b>
<b>31 December 2016</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Variable yield securities	32,520	-	-	-	-	-	-	32,520
Debt securities	164,798	120,337	119,892	218,625	122,675	76,603	177,743	1,000,673
Equity securities	77,005	-	-	-	-	-	-	77,005
<b>Total other financial investments</b>	<b>274,323</b>	<b>120,337</b>	<b>119,892</b>	<b>218,625</b>	<b>122,675</b>	<b>76,603</b>	<b>177,743</b>	<b>1,110,198</b>
Deposits from third parties	57,812	-	-	-	-	-	-	57,812
Cash at bank	61,941	-	-	-	-	-	-	61,941
<b>Total</b>	<b>404,576</b>	<b>120,337</b>	<b>119,892</b>	<b>218,625</b>	<b>122,675</b>	<b>76,603</b>	<b>177,743</b>	<b>1,229,951</b>



**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:

Investments and cash - interest rate sensitivity	Impact on profit after tax		Impact on net assets	
	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
Shift in yield (basis points)				
100 basis point increase	(34,966)	(29,833)	(34,966)	(29,833)
50 basis point increase	(17,483)	(14,916)	(17,483)	(14,916)
50 basis point decrease	16,747	14,758	16,747	14,758
100 basis point decrease	33,495	29,517	33,495	29,517

**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 and minimises operational risks where appropriate. This is achieved by implementing and communicating guidelines and detailed procedures and controls to staff and other third parties. The Company regularly monitors the performance of its controls and adherence to procedures 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.

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

The Company therefore seeks at all times to perform its business activities in a manner that is not only fair, honest and transparent but that also complies fully with applicable UK and International laws and regulations and internal policies and procedures. The Company ensures that this ethos is clearly communicated from the Board of directors downwards to all members of staff and oversight is provided throughout the governance structure, primarily by way of the Product Governance and Distribution Committee. Day-to-day responsibility for monitoring the fair treatment of customers and broader aspects of conduct risk resides with the International Compliance Department which undertakes scheduled reviews as part of a comprehensive Compliance Monitoring schedule.

**5.5 Credit risk**

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



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- 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 insurance risk and the appetite for other risks is low. This protects the Company's solvency from erosion from non-insurance risks 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 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 to ensure credit risk relating to the investment portfolio is kept to a minimum. The performance of the Company's 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, 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 in the following table. The 2016 comparative data has been restated to reflect the underlying assets.

**Investments and cash – credit ratings**

	AAA \$'000	AA \$'000	A \$'000	BBB \$'000	BB \$'000	Total \$'000
<b>31 December 2017</b>						
Variable yield securities	28,550	-	-	-	-	28,550
Debt securities	104,505	594,652	340,879	149,752	11,419	1,201,207
Equity securities	-	-	-	-	-	-
<b>Total other financial investments</b>	<b>133,055</b>	<b>594,652</b>	<b>340,879</b>	<b>149,752</b>	<b>11,419</b>	<b>1,229,757</b>
Cash at bank	52,602	-	-	-	-	52,602
<b>Total</b>	<b>185,657</b>	<b>594,652</b>	<b>340,879</b>	<b>149,752</b>	<b>11,419</b>	<b>1,282,359</b>

**Investments and cash – credit ratings**

	AAA \$'000	AA \$'000	A \$'000	BBB \$'000	BB \$'000	Restated Total \$'000
<b>31 December 2016</b>						
Variable yield securities	32,520	-	-	-	-	32,520
Debt securities	95,408	476,642	292,611	125,857	10,155	1,000,673
Equity securities	77,005	-	-	-	-	77,005
<b>Total other financial investments</b>	<b>204,933</b>	<b>476,642</b>	<b>292,611</b>	<b>125,857</b>	<b>10,155</b>	<b>1,110,198</b>
Cash at bank	61,941	-	-	-	-	61,941
<b>Total</b>	<b>266,874</b>	<b>476,642</b>	<b>292,611</b>	<b>125,857</b>	<b>10,155</b>	<b>1,172,139</b>

The Company's largest counterparty exposure is \$275.9m of US Government securities (2016: \$222.4m restated). 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.





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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 2017	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	289,504	-	-	-	-	289,504
Insurance debtors	84,021	7,490	8,745	6,886	-	107,142
Reinsurance debtors	41,590	3,708	4,329	3,408	-	53,035
Other debtors	26,081	-	-	-	-	26,081
<b>Total</b>	<b>441,196</b>	<b>11,198</b>	<b>13,074</b>	<b>10,294</b>	<b>-</b>	<b>475,762</b>

Financial assets – ageing 31 December 2016	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	281,675	-	-	-	-	281,675
Insurance debtors	81,161	9,289	5,002	2,486	-	97,938
Reinsurance debtors	37,859	4,333	2,333	1,160	-	45,685
Other debtors	28,104	-	-	-	-	28,104
<b>Total</b>	<b>428,799</b>	<b>13,622</b>	<b>7,335</b>	<b>3,646</b>	<b>-</b>	<b>453,402</b>

**Fair value estimation**

The following table presents the Company's financial investments measured at fair value at 31 December 2017 and 31 December 2016 categorised into levels 1, 2 and 3, reflecting the categorization criteria specified in FRS 102 (s34.22). No liabilities were measured at fair value at 31 December 2017 or 31 December 2016. The 2016 comparative data has been restated to reflect the underlying assets.

Financial investments – pricing basis	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>31 December 2017</b>				
Variable yield securities	-	28,550	-	28,550
Debt securities	1,189	1,200,018	-	1,201,207
Equity securities	-	-	-	-
<b>Total other financial investments</b>	<b>1,189</b>	<b>1,228,568</b>	<b>-</b>	<b>1,229,757</b>

Financial investments – pricing basis	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Restated Total \$'000
<b>31 December 2016</b>				
Variable yield securities	-	32,520	-	32,520
Debt securities	17,505	983,168	-	1,000,673
Equity securities	77,005	-	-	77,005
<b>Total other financial investments</b>	<b>94,510</b>	<b>1,015,688</b>	<b>-</b>	<b>1,110,198</b>

FRS 102 defines the disclosure of investments levels as follows:

- Level 1 – Inputs are based on quoted prices in active markets for identical instruments;

The Company's Level 1 investments consist of U.S. Treasuries, money market funds and equity securities traded in an active exchange market. The Company uses unadjusted quoted prices for identical instruments to measure fair value.

- Level 2 – Inputs are based on observable market data (other than quoted prices) or are derived from or corroborated by observable market data;

The Company's Level 2 investments include most of its 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). The Company measures fair value for the majority of its Level 2 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. The Company measures fair value for its structured securities using observable market data in cash flow models.

The Company is responsible for the prices used in its fair value measurements. The Company uses independent pricing services to assist itself in determining fair value of all of its Level 2 investments. The pricing services provide a single price or quote per security. The Company uses data provided by the Company's third party investment managers to value the remaining Level 2 investments. To validate that these quoted prices are reasonable estimates of fair value, the Company performs various quantitative and qualitative procedures, including:

- 1) evaluation of the underlying methodologies;
- 2) analysis of recent sales activity;
- 3) analytical review of the Company's 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 the Company's investments were judged to be inactive at period end. Based on these procedures, the Company did not adjust the prices or quotes provided by its independent pricing services, third party investment managers as of 31 December 2017 or 31 December 2016.

- Level 3 – Inputs are unobservable and not corroborated by market data.

The Company has no Level 3 securities.

## **5.6 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 loss scenarios are provided in Note 5.1.(i)). This means that the Company maintains sufficient liquid assets, or assets that can be readily converted into liquid assets at short notice, to meet expected cash flow requirements. The Company can also draw on group funds to bridge short-term cash flow requirements.



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The following table is an analysis of the net contractual cash flows based on all the liabilities held at 31 December 2017 and 2016:

<b>Financial liabilities – projected cash flows 31 December 2017</b>	<b>Within 1yr \$'000</b>	<b>1-3 years \$'000</b>	<b>3-5 years \$'000</b>	<b>&gt;5 years \$'000</b>	<b>Total \$'000</b>
Net claims outstanding	140,910	164,233	90,804	99,399	495,346
Creditors from direct insurance operations	11,313	-	-	-	11,313
Creditors from reinsurance operations	52,773	-	-	-	52,773
Other creditors	35,834	-	-	-	35,834
<b>Total</b>	<b>240,830</b>	<b>164,233</b>	<b>90,804</b>	<b>99,399</b>	<b>595,266</b>

<b>Financial liabilities – projected cash flows 31 December 2016</b>	<b>Within 1yr \$'000</b>	<b>1-3 years \$'000</b>	<b>3-5 years \$'000</b>	<b>&gt;5 years \$'000</b>	<b>Total \$'000</b>
Net claims outstanding	132,009	152,804	72,383	73,443	430,639
Creditors from direct insurance operations	12,696	-	-	-	12,696
Creditors from reinsurance operations	51,447	-	-	-	51,447
Other creditors	48,250	-	-	-	48,250
<b>Total</b>	<b>244,402</b>	<b>152,804</b>	<b>72,383</b>	<b>73,443</b>	<b>543,032</b>

The next two tables summarise the carrying amount at the reporting date of financial instruments analysed by maturity date. The 2016 comparative data has been restated to reflect the underlying assets.

<b>Investments and cash - maturity 31 December 2017</b>	<b>Within 1yr \$'000</b>	<b>1-3 years \$'000</b>	<b>3-5 years \$'000</b>	<b>&gt;5 years \$'000</b>	<b>Total \$'000</b>
Variable yield securities	28,550	-	-	-	28,550
Debt securities	112,561	215,988	221,695	650,963	1,201,207
Equity securities	-	-	-	-	-
<b>Total other financial investments</b>	<b>141,111</b>	<b>215,988</b>	<b>221,695</b>	<b>650,963</b>	<b>1,229,757</b>
Cash at bank	52,602	-	-	-	52,602
<b>Total</b>	<b>193,713</b>	<b>215,988</b>	<b>221,695</b>	<b>650,963</b>	<b>1,282,359</b>

<b>Investments and cash - maturity 31 December 2016</b>	<b>Within 1yr \$'000</b>	<b>1-3 years \$'000</b>	<b>3-5 years \$'000</b>	<b>&gt;5 years \$'000</b>	<b>Restated Total \$'000</b>
Variable yield securities	32,520	-	-	-	32,520
Debt securities	110,720	207,280	160,279	522,394	1,000,673
Equity securities	77,005	-	-	-	77,005
<b>Total other financial investments</b>	<b>220,245</b>	<b>207,280</b>	<b>160,279</b>	<b>522,394</b>	<b>1,110,198</b>
Cash at bank	61,941	-	-	-	61,941
<b>Total</b>	<b>282,186</b>	<b>207,280</b>	<b>160,279</b>	<b>522,394</b>	<b>1,172,139</b>





6. Segmental information

(a) Underwriting result by class of business

2017	Gross premiums written \$'000	Gross premiums earned \$'000	Gross claims incurred \$'000	Gross operating expenses \$'000	Reinsurance balance \$'000	Net underwriting result \$'000
<b>Direct insurance</b>						
Accident and health	11,055	11,373	3,124	5,055	(1,977)	1,217
Credit, political risk and suretyship	170,939	162,325	90,828	55,241	1,834	18,090
Travel	20,430	22,316	20,897	10,950	(299)	(9,830)
Marine, aviation and transport	21,793	22,500	2,936	7,199	(13,590)	(1,225)
Miscellaneous	10,775	10,027	12,799	4,487	10,105	2,846
Third party liability	211,373	219,958	108,046	86,898	(5,827)	19,187
<b>Total direct</b>	<b>446,365</b>	<b>448,499</b>	<b>238,630</b>	<b>169,830</b>	<b>(9,754)</b>	<b>30,285</b>
<b>Reinsurance acceptances</b>	<b>116,743</b>	<b>113,746</b>	<b>19,571</b>	<b>35,511</b>	<b>(25,125)</b>	<b>33,539</b>
<b>Total</b>	<b>563,108</b>	<b>562,245</b>	<b>258,201</b>	<b>205,341</b>	<b>(34,879)</b>	<b>63,824</b>
Investment return						32,305
Equalisation provision						-
<b>Technical account</b>						<b>96,129</b>
<b>2016</b>	<b>Gross premiums written \$'000</b>	<b>Gross premiums earned \$'000</b>	<b>Gross claims incurred \$'000</b>	<b>Gross operating expenses \$'000</b>	<b>Reinsurance balance \$'000</b>	<b>Net underwriting result \$'000</b>
<b>Direct insurance</b>						
Accident and health	13,104	12,583	4,283	5,760	(3,356)	(816)
Credit, political risk and suretyship	147,199	145,052	101,431	55,546	22,212	10,287
Travel	58,810	54,701	31,290	30,036	(103)	(6,728)
Marine, aviation and transport	22,759	22,862	33,791	8,384	30,762	11,449
Miscellaneous	9,220	8,072	(3,138)	4,070	(12,365)	(5,225)
Third party liability	204,048	204,389	87,130	84,894	(11,492)	20,873
<b>Total direct</b>	<b>455,140</b>	<b>447,659</b>	<b>254,787</b>	<b>188,690</b>	<b>25,658</b>	<b>29,840</b>
<b>Reinsurance acceptances</b>	<b>93,490</b>	<b>103,074</b>	<b>40,195</b>	<b>32,115</b>	<b>(5,996)</b>	<b>24,768</b>
<b>Total</b>	<b>548,630</b>	<b>550,733</b>	<b>294,982</b>	<b>220,805</b>	<b>19,662</b>	<b>54,608</b>
Investment return						24,157
Equalisation provision						96,225
<b>Technical account</b>						<b>174,990</b>

The reinsurance balance represents the (charge)/credit to the technical account from the aggregate of all items relating to reinsurance outwards.



**(b) Geographical location of underwriting operations**

	Gross premiums written		Profit before taxation		Net assets	
	2017	2016	2017	2016	2017	2016
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
United Kingdom	437,997	421,916	49,663	176,995	678,784	615,431
Rest of Europe	125,111	126,714	27,603	(34)	4,345	11,540
	<u>563,108</u>	<u>548,630</u>	<u>77,266</u>	<u>176,961</u>	<u>683,129</u>	<u>626,971</u>

**(c) Geographical location of gross premiums written by destination**

	2017	2016
	\$'000	\$'000
United Kingdom	277,583	286,791
Rest of Europe	175,584	159,310
Rest of the World	109,941	102,529
	<u>563,108</u>	<u>548,630</u>

**7. Investment return**

	2017	2016
	\$'000	\$'000
<b>Investment income:</b>		
Income from other financial investments at fair value through profit or loss	26,490	24,269
Bank interest receivable and similar income	146	(30)
Investment property rental income	-	8
Distributions from subsidiary undertakings	8,022	-
Gains on the realisation of financial investments at fair value through profit or loss excluding FX from revaluation	10,926	3,631
	<u>45,584</u>	<u>27,878</u>
<b>Investment expenses and charges:</b>		
Investment management fees and charges	(1,474)	(1,692)
Losses on the realisation of financial investments at fair value through profit or loss excluding FX from revaluation	(3,637)	(2,051)
	<u>(5,111)</u>	<u>(3,743)</u>
<b>Net unrealised gains (losses) on investments:</b>		
Unrealised gains on financial investments at fair value through profit or loss excluding FX from revaluation	9,935	8,659
Unrealised losses on financial investments at fair value through profit or loss excluding FX from revaluation	(10,392)	(2,237)
	<u>(457)</u>	<u>6,422</u>
<b>Total investment return</b>	<u>40,016</u>	<u>30,557</u>





NOTES TO THE FINANCIAL STATEMENTS

	<u>2017</u>	<u>2016</u>
	<u>\$'000</u>	<u>\$'000</u>
<b>Allocation of investment return:</b>		
Earned investment income allocated to the general business technical account	32,305	24,157
Investment return allocated to the non-technical account	<u>7,711</u>	<u>6,400</u>
<b>Total Investment return</b>	<u>40,016</u>	<u>30,557</u>

The Company recorded \$28.6m net foreign exchange gains in revaluation of the non-US Dollar investment portfolio (2016: \$25.1m losses). Additionally foreign exchange losses on revaluation of other non-USD Dollar monetary assets and liabilities totalled \$48.7m (2016: \$30.2m gains).

**8. Net operating expenses**

	<u>2017</u>	<u>2016</u>
	<u>\$'000</u>	<u>\$'000</u>
Commission costs	125,719	136,165
Change in deferred acquisition costs (Note 21)	3,270	(132)
Reinsurance commissions and profit participation	<u>(17,486)</u>	<u>(18,357)</u>
Earned net acquisition costs	111,503	117,676
Administrative expenses	<u>76,352</u>	<u>84,772</u>
	<u>187,855</u>	<u>202,448</u>

Total commission written during the year in respect of direct insurance was \$89.4m (2016: \$99.4m).

**9. Staff costs**

All staff are employed by HCC Service Company Inc. (UK branch), a fellow Tokio Marine HCC group subsidiary. The disclosures for staff costs below relate to underwriting and other direct staff only. The costs of staff providing central services to HCC International entities are allocated and recharged to the Company as a management fee. This staff information is not included in salary costs and average staff numbers as it is not practical to allocate them to the underlying entities to which the staff provides services.

	<u>2017</u>	<u>2016</u>
	<u>\$'000</u>	<u>\$'000</u>
Wages and salaries	24,555	25,332
Social security costs	3,280	2,936
Other pension costs	<u>1,520</u>	<u>1,419</u>
	<u>29,355</u>	<u>29,687</u>

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

	<u>2017</u>	<u>2016</u>
	<u>Number</u>	<u>Number</u>
Underwriting	129	115
Claims	16	9
Administration and finance	<u>38</u>	<u>29</u>
	<u>183</u>	<u>153</u>

**Directors' emoluments**

The compensation of executive directors attributable to the Company is charged as a management fee and not included in staff costs

	<u>2017</u>	<u>2016</u>
	<u>\$'000</u>	<u>\$'000</u>
Aggregate emoluments	4,363	4,478
Pension contributions	11	45
	<u>4,374</u>	<u>4,523</u>

Pension benefits are accruing to one director (2016: four) under the Group's defined contribution pension scheme.

**Highest paid director**

	<u>2017</u>	<u>2016</u>
	<u>\$'000</u>	<u>\$'000</u>
Aggregate emoluments	1,492	1,631
Pension contributions	-	-
	<u>1,492</u>	<u>1,631</u>

**10. Auditors' remuneration**

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

	<u>2017</u>	<u>2016</u>
	<u>\$'000</u>	<u>\$'000</u>
Fees payable for the audit of the Company's financial statements	319	391
Fees payable for audit-related assurance services	189	322
Tax compliance services	-	19
Tax advisory services	-	7
	<u>508</u>	<u>739</u>

Audit fees are paid by HCC Service Company Inc. (UK branch) and recharged as appropriate to the Company.

**11. Other charges**

	<u>2017</u>	<u>2016</u>
	<u>\$'000</u>	<u>\$'000</u>
Corporate oversight costs	3,361	3,180
Continental Europe Office closure costs	-	3,157
Service awards	1,990	1,664
Amortisation of goodwill (Note 13)	1,159	1,545
	<u>6,510</u>	<u>9,546</u>

**HCC INTERNATIONAL INSURANCE COMPANY PLC**

**NOTES TO THE FINANCIAL STATEMENTS**

**12. Tax on profit on ordinary activities**

	<u>2017</u>	<u>2016</u>
	<u>\$'000</u>	<u>\$'000</u>
UK Corporation tax at 19.25% (2016: 20.00%)		
Current tax on income for the year	21,057	22,566
Tax payments in respect of prior years	645	(121)
Current tax charge for the year	21,702	22,445
Deferred tax - origination and reversal of timing differences	(5,740)	16,418
<b>Tax on profit on ordinary activities</b>	<u>15,962</u>	<u>38,863</u>

The tax assessed for the year is higher (2016: higher) than the standard rate of corporation tax in the UK. The differences are explained below:

	<u>2017</u>	<u>2016</u>
	<u>\$'000</u>	<u>\$'000</u>
Profit on ordinary activities before taxation	<u>77,266</u>	<u>176,961</u>
Tax on profit on ordinary activities at standard rate of 19.25% (2016: 20.00%)	14,873	35,392
Expenses not deductible for tax purposes	381	337
Amortisation of goodwill	223	386
Foreign tax	741	-
Effect of foreign exchange	2,840	2,397
Dividend from subsidiary	(1,544)	-
Tax payments in respect of prior years	645	(121)
Deferred tax in respect of prior years	(2,131)	-
Other	(66)	472
<b>Tax on profit on ordinary activities</b>	<u>15,962</u>	<u>38,863</u>

The calculation of deferred tax balances at the year-end takes into account the reduction in the UK main corporation tax rate from 20% to 19.0% that became effective from 1 April 2017 and the further reduction to 17.0% that will be effective from 1 April 2020. The disclosure of 2016 numbers has been restated in line with 2017.

**13. Goodwill**

	<u>2017</u>	<u>2016</u>
	<u>\$'000</u>	<u>\$'000</u>
<b>Cost</b>		
At 1 January	23,176	23,176
At 31 December	<u>23,176</u>	<u>23,176</u>
<b>Accumulated amortisation</b>		
At 1 January	15,451	13,906
Amortisation charge for the year	1,159	1,545
At 31 December	<u>16,610</u>	<u>15,451</u>
<b>Net book value</b>		
At 31 December	<u>6,566</u>	<u>7,725</u>

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

**14. Land and buildings**

	<u>2017</u>	<u>2016</u>
	<u>\$'000</u>	<u>\$'000</u>
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(j).

**15. Investment in subsidiary undertakings**

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

	<u>2017</u>	<u>2016</u>
	<u>\$'000</u>	<u>\$'000</u>
At 1 January	8,208	7,501
Distributions received from subsidiary undertakings	(8,022)	-
Revaluation of subsidiary undertakings	2,147	2,058
Foreign exchange impact on translation to closing rate	728	(1,351)
At 31 December	<u>3,061</u>	<u>8,208</u>

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	Ordinary	100%
HCC Diversificación y Soluciones S.L. (incorporated in Spain)	Dormant	Ordinary	100%

All subsidiary companies are directly held and are incorporated in England and Wales unless otherwise stated above. The registered office for HCCI Credit Services Limited is The Grange, Rearsby, Leicester LE7 4FY and the registered office for HCC Diversificación y Soluciones S.L. is Calle Josep Pla, 2 – Piso 10, 08019 Barcelona, España.

**16. Other financial investments**

	Fair value or amortised		Book cost	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
Variable yield securities and units in unit trusts	28,550	32,520	28,550	32,520
Debt securities and other fixed-income securities	1,201,207	1,000,673	1,199,325	1,038,013
Equity shares	-	77,005	-	74,228
	<u>1,229,757</u>	<u>1,110,198</u>	<u>1,227,875</u>	<u>1,144,761</u>

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

**17. Other debtors**

	<u>2017</u>	<u>2016</u>
	<u>\$'000</u>	<u>\$'000</u>
Other debtors	20,257	17,210
Amounts owed by group companies	5,824	10,894
	<u>26,081</u>	<u>28,104</u>

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.

**18. Tangible assets**

	Owner occupied Leasehold improvements	Owner occupied Land and Buildings	Computer equipment	Fixtures, fittings and office equipment	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Book cost</b>					
At 1 January 2017	1,466	3,572	19	1,830	6,887
Additions	-	248	-	50	298
At 31 December 2017	<u>1,466</u>	<u>3,820</u>	<u>19</u>	<u>1,880</u>	<u>7,185</u>
<b>Accumulated depreciation</b>					
At 1 January 2017	1,466	900	19	1,818	4,203
Charge for the year	-	62	-	4	66
At 31 December 2017	<u>1,466</u>	<u>962</u>	<u>19</u>	<u>1,822</u>	<u>4,269</u>
<b>Net book value</b>					
31 December 2017	<u>-</u>	<u>2,858</u>	<u>-</u>	<u>58</u>	<u>2,916</u>
31 December 2016	<u>-</u>	<u>2,672</u>	<u>-</u>	<u>12</u>	<u>2,684</u>

Land and buildings is occupied by the Company for its own use and is being depreciated over 50 years through June 2045.



19. Called up share capital

	2017		2016	
	Number of Shares	\$'000	Number of Shares	\$'000
<b>Allotted and fully paid Ordinary Shares</b>				
Balance brought forward:				
- Ordinary shares of £1 each	96,047,813	163,045	96,047,813	163,045
- Ordinary shares of \$1 each	70,197,000	70,197	61,360,000	61,360
Shares issued during the year:				
- Ordinary shares of \$1 each	-	-	8,837,000	8,837
<b>Balance carried forward</b>	<b>166,244,813</b>	<b>233,242</b>	<b>166,244,813</b>	<b>233,242</b>

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 2017 totalled \$nil (2016: \$nil).

20. Other creditors including taxation and social security

	2017	2016
	\$'000	\$'000
Corporation tax	7,736	2,567
Deferred tax liability	10,605	16,345
Other creditors	296	267
Amounts owed to group companies	17,197	29,071
	<b>35,834</b>	<b>48,250</b>

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

Deferred tax liability/(asset)	2017	2016
	\$'000	\$'000
At 1 January - deferred tax liability/(asset)	16,345	(73)
Changes in accelerated capital allowances	253	190
Deferred taxation of release of Equalisation provision	(3,609)	15,236
Technical reserves	(1,765)	-
Short-term timing differences	(686)	992
Change in UK corporation tax rate	67	-
At 31 December - deferred tax liability	<b>10,605</b>	<b>16,345</b>

The deferred tax liability consists of the following amounts:

	2017	2016
	\$'000	\$'000
Accelerated capital allowances	411	158
Technical reserves	(1,765)	-
Short-term timing differences	332	951
Deferred taxation for release of Equalisation provision	11,627	15,236
Deferred tax liability	<b>10,605</b>	<b>16,345</b>





**21. Technical provisions**

	Provisions for unearned premiums	Claims outstanding - reported claims	Claims outstanding - incurred but not reported claims	Claims outstanding - Total	Deferred acquisition costs (1)	Net technical liabilities
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Gross of reinsurance</b>						
At 1 January 2017	281,353	347,405	364,909	712,314	73,148	920,519
Exchange adjustments	24,020	23,113	40,131	63,244	5,193	82,071
Claims paid in year	-	(248,908)	-	(248,908)	-	(248,908)
Movement in provision	863	230,539	27,662	258,201	(3,270)	262,334
<b>At 31 December 2017</b>	<b>306,236</b>	<b>352,149</b>	<b>432,702</b>	<b>784,851</b>	<b>75,071</b>	<b>1,016,016</b>
<b>Reinsurance</b>						
At 1 January 2017	51,385	142,815	138,860	281,675	11,216	321,844
Exchange adjustments	7,373	3,923	18,083	22,006	869	28,510
Reinsurance recoveries in the year	-	(68,741)	-	(68,741)	-	(68,741)
Movement in provision	(4,147)	57,433	(2,869)	54,564	(2,151)	52,568
<b>At 31 December 2017</b>	<b>54,611</b>	<b>135,430</b>	<b>154,074</b>	<b>289,504</b>	<b>9,934</b>	<b>334,181</b>
<b>Net</b>						
<b>At 31 December 2017</b>	<b>251,625</b>	<b>216,719</b>	<b>278,628</b>	<b>495,347</b>	<b>65,137</b>	<b>681,835</b>
<b>At 31 December 2016</b>	<b>229,968</b>	<b>204,590</b>	<b>226,049</b>	<b>430,639</b>	<b>61,932</b>	<b>598,675</b>

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

Claims handling costs have been reclassified in the profit and loss account from the change in the provision for claims - gross amount to the claims paid- gross amount, to reflect the nature of the transaction appropriately.

**22. Capital commitments**

There were no capital commitments contracted for but not provided for at 31 December 2017 (2016: \$nil).

**23. Ultimate parent company and controlling party**

The Company's ultimate parent company and controlling party is Tokio Marine Holdings, Inc. ('TMHD'). TMHD 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/](http://www.tokiomarinehd.com/en/ir/library/annual_report/).

The company's immediate parent company is Pepys Holdings Limited which is incorporated in and has a head office in London, UK.

**24. Post balance sheet events**

The On 8 February, 2018, the Company established a wholly owned subsidiary, TME, based in Luxembourg. It is currently in the application process with the insurance regulator and anticipates that it will be authorised to underwrite business from mid-2018.

## APPENDIX – Swiss Branch Information (Unaudited)

### Appendix - Executive Summary

The following Solvency and Financial Condition Report ('SFCR') has been prepared to provide information to the Swiss Financial Market Supervisory Authority ('FINMA') about the financial and capital position of HCC International Insurance Company Plc, London, Zürich Branch ('the Branch'), for Country reporting purposes. The Branch underwrites business for HCC International Insurance Company Plc ('HCCII') within the group in Switzerland. The report sets out the Business and Performance, System of Governance, Risk Profile, Valuation of Assets and Liabilities for Solvency Purposes and Capital Management of the Branch. This Appendix is produced to meet the requirements of FINMA.

#### Business & Performance

HCCII is part of the Tokio Marine HCC International Group ('TMHCC International'), which includes the insurance platforms HCCII, Houston Casualty Company London Branch and Lloyd's Syndicate 4141. The TMHCC International underwriters write business on the international platforms based on prescribed rules which determine which carrier is utilised.

TMHCC International has a continuing strategic goal to build a portfolio of specialty niche products in the International insurance market place. TMHCC International underwrites and manages its products through two segments, London Market and Specialty.

The overall TMHCC International Strategy can be summarised as follows: i) To build and maintain a diversified and non-correlating portfolio of business that achieves a return of 10% above the risk free rate over the insurance cycle; ii) To preserve loss ratio over premium volume, growing only where we see a possibility for improved rating and conditions; iii) To preserve capital using risk mitigation as a key component in ensuring that all risks are identified and monitored.

The HCCII strategy can be summarised as follows: i) To strategically manage a diversified portfolio of businesses, differentiating ourselves from our competitors either in product offering, customer service or market positioning; ii) To continue to expand our marketing footprint and push broker development in the UK regional market and throughout the rest of Europe; iii) To identify opportunities to expand our current business lines where opportunities arise and meet our strategic threshold (including to look for complementary lines that will increase diversification and improve our International footprint); iv) To maintain a management, organisational and system/process structure commensurate with the size of the organisation.

## Appendix - Section A – Business and Performance

### Appendix - A1 – Business

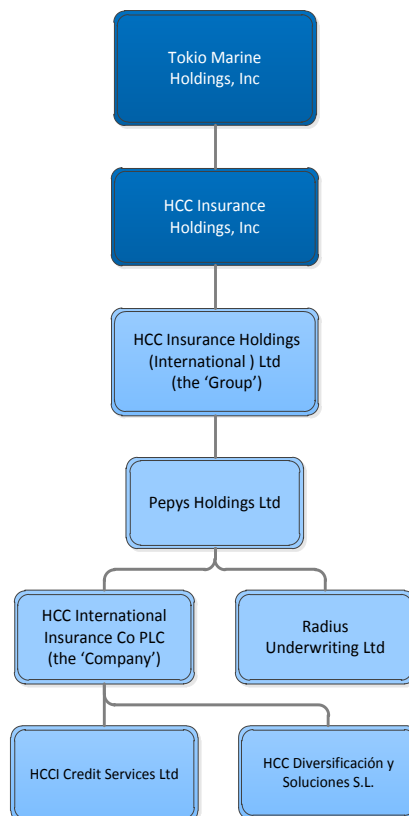
#### Branch Information

HCC International Insurance Company Plc ('HCCII'), London, Zürich Branch, Breitingenstrasse 23, 8001 Zurich (UID) CHE-113.995.049 ('the Branch') was registered on 19 December 2007, under the laws of Switzerland ('the Registration').

The principal purpose of the Branch is to write general commercial insurance and further insurance company related activities specified in the Registration.

TMHCC International underwriters write business on the international platforms based on prescribed rules which determine which carrier is utilised. Licensing, distribution or client choices are the principle determinants of the platform utilised. Lines underwritten by the Branch include Property Treaty, Property Direct and Facultative, Accident and Health, Energy and Marine, Professional Risks, Financial Lines, Credit and Political Risk. Financial Lines is underwritten through HCC Global Financial Products S.L., which is a wholly owned subsidiary of HCC. The Branch has continued to grow in recent years, despite difficult trading conditions, as HCC makes use of the Tokio Marine franchise, its European licenses, and continues to add to its international product offerings.

HCCII is part of the HCC Insurance Holdings (International) Limited ('HCCIH(I)') group, whose ultimate parent company is Tokio Marine Holdings, Inc., which is incorporated in Japan and its head office is located in Tokyo. Prior to the TMHD transaction on 27 October 2015, HCCII's ultimate parent was HCC Insurance Holdings, Inc. whose head office is located in Houston, Texas. The organization structure is set out below. Light blue items indicate HCCIH(I) group companies, while the darker blue items show HCCIH(I) immediate and ultimate parents.



Further information on the group structure is available in the main sections of the Group SFCR.

## Company Information

The Branch is a wholly owned branch of HCCII and HCCII is a private company limited by shares.

## Auditor and Regulatory Bodies

The regulatory supervisor and external auditor for the Branch are set out below:

### Branch Supervisor

Swiss Financial Market Supervisory Authority (FINMA)  
Laupenstrasse 27, 3003  
Bern

### Group Auditors

PricewaterhouseCoopers AG  
Birchstrasse 160, 8050  
Zurich

## Appendix - A2 - Financial Performance

A summary of the profit and loss statement for the year ended 31 December 2017 for the Branch was as follows:

USD'000	2017	2016
Balance on the technical account for general business	9,585	(5,013)
Net investment income	522	14
Other income / (charges)	(639)	(254)
<b>Profit on ordinary activities before tax</b>	<b>9,468</b>	<b>(5,253)</b>
Tax	(1,727)	1,938
<b>Profit on ordinary activities after tax</b>	<b>7,741</b>	<b>(3,315)</b>

The Branch made a net profit after tax for the financial year of \$7.7m (2016: Loss \$3.3m). This includes a balance on the technical account for general business of \$9.5m (2016: Loss \$5.3m). For a breakdown of the result by line of business, please see below.

## Underwriting Performance by Line of Business

The Branch underwrites and manages its products through two segments, London Market and Specialty. London Market business is comprised of Property Direct and Facultative, Property Treaty, Accident and Health and Marine and Energy. Specialty is comprised of Professional Risks, Financial Lines, Credit & Political Risk, Surety and Contingency. These segments execute the Branch's strategy through concentration of underwriting in selected, narrowly defined lines of business where consistent underwriting profit can be achieved.

In particular the Branch underwrites business in the following three main lines of business discussed below:

### Energy

Our Energy products offer cover to Energy companies or the captives of Energy companies involved in upstream exploration, production, development, processing, storage and transportation of onshore and offshore oil and gas. We currently have good relationships with all the key London market brokers. Our clients include drilling and service contractors, independent and multinational oil and gas companies and midstream operators.

Detailed coverage includes physical damage, offshore construction, operator's extra expense (Control of Well), business interruption/loss of production income and offshore terrorism. Protected by an extensive reinsurance programme, we underwrite on a conservative basis and use considerable facultative reinsurance to cede out elements of the account that we do not want to retain.

Since its introduction in 2010 we have written USO 16m gross premium under our Branch Stamp. Over 65% of that premium has been in respect of the Pemex account, Pemex are the State Oil and Gas Company of Mexico and their captive KOT is domiciled in Switzerland. HCCII used to lead the upstream package USD 1bn Xs USD 50m until we came off over pricing concerns in June 2014, Other clients we have previously insured under our Branch Stamp include Stena, the offshore drilling contractor and Total whose captive Omnium, resides in Switzerland.

There was limited activity in the Energy line of business as at 31 December 2017. The main policy renewal of Stena Drilling provides \$0.5m of gross written premium. There were no new accounts written through the Branch, however, if any new accounts are written the underwriting team expects them to be on a similar scale.

## **Financial Lines**

The Branch is utilized purely by HCC Global for our Swiss domiciled insureds and the following products are presently offered through the Branch: D&O (including POSI), E&O, Crime, BLD, EPL, PTL, TRI, Stand Alone Cyber and K&R. The majority of the book is excess business. Approximately 55% is D&O for both commercial and FI industries while the remainder is split between the other lines.

Financial Lines wrote \$3.7m for the year ended 31 December 2017 compared to \$9.9m in 2016. The decrease mainly relates to lower D&O line of business written in the year compared to 2016 caused by the non-renewal of a Blended contract for Credit Suisse Group. This policy was written on an 18 month basis and therefore does not renew until January 2018 which represents a \$1.9m decrease in premiums in the year compared to prior year. Excluding the Blended contract for Credit Suisse Group, Financial Lines continued organic growth through ongoing strategies along with new clients and business written in the year resulting in specific increased in D&O, Warranty & Indemnity and Professional Indemnity lines of business.

We will selectively start offering stand-alone Cyber policies and this may represent a growth opportunity for the next three years. As this is a truly emerging product it is difficult to estimate income during the next 3 years though it is unlikely to be considerable as HCCII will follow a conservative approach when underwriting.

## **HCC Credit**

HCC Credit wrote \$4.7m in the year ended 31 December 2017 which is \$0.9m higher than prior year (\$3.9m) due to a new policy for Trafigura PTE Ltd (Trafigura), a commodity trading and Logistics Company.

The premiums for Trafigura have continued to increase in line with expectations. This represented a shift from 2016 when the majority of the business written was for Bank Insureds (including Credit Suisse, BCGE, ING and Deutsche Bank). The increase in premium written for Trafigura was a result of the move in Trafigura's key trading offices from London to Switzerland and their decision to use the Swiss entity as the Insured.

This favourable movement in premium is expected to continue for the rest of 2017 with a possible further increase in premiums written for Trafigura and other commodity traders out of Switzerland. However, the Trafigura business could potentially reduce in future periods should the company decide to bind more policies from Singapore, where more of its trading operations are being carried out.

## **Other**

Other premiums mostly relate to Marine (\$0.8m) which is mainly driven by Hull income from Petroleos Mexicanos, Accident & Health (\$0.4m) driven by Travel income from Sadhara Bima policy and Property Treaty (\$0.3m) driven by First Event XL class of business from the Q Metric policy.

The underwriting results of the Branch by lines of business are set out below:

USD'000	2017 Actuals			
	Gross Written Premium	Net Earned Premium	Net Loss Ratio %	Underwriting Result
<b>London Market</b>				
Energy & Marine	790	819	(290.7%)	3,063
Property & Property Treaty	267	155	7.1%	127
Accident & Health	385	387	36.2%	54
<b>Total London Market</b>	<b>1,442</b>	<b>1,361</b>	<b>(163.9%)</b>	<b>3,244</b>
<b>Specialty</b>				
Surety	-	-	-	-
Credit	-	-	-	-
HCC Credit	4,724	5,180	3.9%	3,912
<b>Total Surety &amp; Credit</b>	<b>4,724</b>	<b>5,180</b>	<b>3.9%</b>	<b>3,912</b>
Professional Risks	(47)	(47)	31.9%	(32)
Financial Lines	3,704	6,845	2.5%	4,219
Other	806	81	138.3%	93
<b>Total Specialty</b>	<b>9,187</b>	<b>12,059</b>	<b>3.9%</b>	<b>8,192</b>
<b>Total</b>	<b>10,629</b>	<b>13,420</b>	<b>(13.1%)</b>	<b>11,436</b>

USD'000	2016 Actuals			
	Gross Written Premium	Net Earned Premium	Net Loss Ratio %	Underwriting Result
<b>London Market</b>				
Energy & Marine	365	314	1,941.1%	(5,913)
Property & Property Treaty	62	49	n/a	149
Accident & Health	401	408	31.6%	80
<b>Total London Market</b>	<b>828</b>	<b>771</b>	<b>807.3%</b>	<b>(5,684)</b>
<b>Specialty</b>				
Surety	-	-	-	-
Credit	-	-	-	-
HCC Credit	3,868	3,276	82.1%	(99)
<b>Total Surety &amp; Credit</b>	<b>3,868</b>	<b>3,276</b>	<b>82.1%</b>	<b>(99)</b>
Professional Risks	(32)	(28)	39.3%	(17)
Financial Lines	9,924	5,736	33.9%	1,677
Other	1,364	72	30.6%	203
<b>Total Specialty</b>	<b>15,124</b>	<b>9,056</b>	<b>51.3%</b>	<b>1,764</b>
<b>Total</b>	<b>15,952</b>	<b>9,827</b>	<b>110.6%</b>	<b>(3,920)</b>

### Appendix - A3 - Investment Performance

As described above in the main sections of the Group SFCR, the investment function is overseen by the Investment Committee which operates under terms of reference set by HCCII's Board. The Committee is responsible for recommending the Investment Risk Appetite to the Board and preparing, in conjunction with the HCC Insurance Holdings Inc.'s Investment Managers, the Investment Policy which is consistent with the risk appetite and regulatory requirement

The performance of the Branch's portfolio is shown below (figures in USD'000):

Asset Classes	Gross Investment Income	Realised Gains and Losses	Unrealised Gains and Losses	Total
Corporate / Government Bonds	460	(334)	1,420	1,545
Short term deposits	1	-	-	1
<b>Total</b>	<b>461</b>	<b>(334)</b>	<b>1,420</b>	<b>1,546</b>



## Appendix - A4 – Performance of Other Activities

### Other Material Income and Expenses

Other charges and income incurred by the Branch for the year, not included within the technical account were:

USD'000	HCC Insurance Holdings (International) (Group)	HCC International Insurance Company plc (Company)
Corporate oversight costs	6	8
Total other (income) / charges	6	8

## Appendix - Section B – System of Governance

HCCIH(I) operates a group wide system of governance. The information on the system of governance is shown in detail in the corresponding main section of the Group SFCR.

## Appendix - Section C – Risk Profile

HCCIH(I) operates a group wide risk profile and assessment. The information on the risk profile is shown in detail in the corresponding main section of the Group SFCR. A summary of the risk profile for the Branch is set out below:

### Appendix - C1 – Underwriting (Insurance) Risk

The underwriting activities of the Branch are conducted by underwriters located at the London and Barcelona offices.

Claims are handled by the International Claims team in London and Barcelona and financial reporting requirements are also managed in London.

The London Finance team produces a quarterly report, providing year to date information on written premium, claims and the overall underwriting result. A balance sheet is also included in the report. This report is provided to Philip Jung and the heads of the Compliance teams in London and Barcelona.

Other back office functionality provided by London includes, tax reporting, IT, HR, Compliance, Enterprise Risk and Internal Audit.

Each of the underwriting, claims and operational processes performed are done so in accordance with the control framework, which has been described in detail under section 3 of the Group SFCR.

On a monthly basis, a conference call is held between the Branch General Manager, Finance, IT and Compliance (both in London and Barcelona and the Compliance Officer at Tokio Millennium Re) to discuss operational matters and any issues arising. This allows for discussion of any changes to the risk profile from both a branch and parent company perspective.

The conference call is subject to the usual governance applicable to any oversight group or committee meeting of HCCII, i.e. an agenda is produced for each meeting, with a subsequent set of minutes and action points.

The implementation of an enhanced data protection framework to comply with GDPR requirements, is a key piece of work for HCCII over the coming months, representing an elevation of the data privacy risk profile and the resultant changes will be applicable to each of its branches, with the exception of the Branch.

The Swiss Federal Council (SFC) published a Draft Bill to the revision of the Federal Act on Data Protection (FADP) on 15 September 2017, which intends to strengthen the protection of personal data and to adapt the existing provisions to the digital age. The SFC expects that companies operating within its jurisdiction will demonstrate compliance with the updated FADP and to this end, HCCII has engaged the services of Field Fisher to ensure the Branch adheres to the enhanced legislation.

### Appendix - C2 – 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.

For foreign exchange risk, the Branch's functional currency is the US Dollar and the reporting currency is Swiss Francs. The effect of this on foreign exchange risk is that the Branch's profit for the financial year is mainly exposed to fluctuations in exchange rates for non-US dollar denominated transactions upon revaluation of assets and liabilities. Also the US dollar functional currency is

translated to Swiss Francs reporting currency and any Foreign Exchange gains or losses are recognised in Equity as part of Other Reserves.

For interest rate risk, some of the Branch's financial instruments, including cash and certain financial assets at fair value, are exposed to movements in market interest rates.

A full list of assets may be found in Group QRT S.06.02. Summary of the Branch list of assets are set out below:

Asset Type & Rating	31/12/17 Asset Value (\$m)
Government Bonds AAA	21.2
Government Bonds AA+	1.2
Corporate Bonds AAA	6.6
Cash & Cash Equivalents	1.0
<b>Total</b>	<b>30.0</b>

It is noted that there are no derivatives within the investment portfolio.

## Appendix - Section D – Valuation for Solvency Purposes

### Appendix - D1 – Assets

The Solvency II directive (Article 75) requires that an economic, market consistent approach to the valuation of assets and liabilities is taken. The basis of preparation of the assets and liabilities for solvency purposes is aligned with the basis of preparation of the Swiss statutory financial statements, unless otherwise documented below. This applies to the Branch's Solvency II net asset valuation.

The Branch financial statements have been prepared in conformity with the Swiss Code of Obligations and the additional insurance requirements of FINMA on a going concern basis. The details of the accounting policies used by the Branch can be found in the attached financial statements of the Branch.

The table below shows the Branch's balance sheet reconciliation from the Swiss Code of Obligations and the additional insurance requirements of FINMA figures through to the Solvency II reclassifications and valuation adjustments to the Solvency II balances reported in the QRTs.

Branch Reconciliation from Swiss Code of Obligations and FINMA to Solvency II USD'000						
2017				2016		
Asset Classes	Swiss Code of Oblig. & FINMA	SII Adj	Solvency II	Swiss Code of Oblig. & FINMA	SII Adj	Solvency II
Government Bonds	22,804	(372)	22,432	18,022	110	18,132
Corporate Bonds	6,580	(4)	6,576	5,849	(10)	5,839
<b>Investments</b>	<b>29,384</b>	<b>(376)</b>	<b>29,008</b>	<b>23,871</b>	<b>100</b>	<b>23,971</b>

### Appendix - D2 – Technical Provisions

The Branch forms part of the HCCII information on technical provisions which may be found in the Group SFCR Technical Provisions section. A summary of the Branch technical provisions management process is set out below:

The Branch is required by FINMA, to engage a responsible actuary to ensure that:

- The solvency margin is calculated correctly and the restricted assets meet the requirements of the supervisory regulations;
- Accurate accounting information is used; and
- Sufficient technical reserves are established

To support this opinion, the responsible actuary is required to produce a comprehensive report annually for the executive Board, which is available to FINMA on request. The report includes sections on:

- The current state and possible developments in the company from an actuarial perspective;
- Specific technical developments which might compromise the financial condition of the business;
- Source material and details of parameters/models where used;
- Sensitivity of the results to changes in parameters.

The table below sets out the split of technical reserves currently held provided for the branch.

Technical Provisions - USD'000	2017			2016		
	Unearned Premium Reserve	Claims Reserves	Equalisation Provision	Unearned Premium Reserve	Claims Reserves	Equalisation Provision
<b>London Market</b>						
Energy & Marine	326	6,648	-	123	12,060	-
Other	254	83	-	117	73	-
<b>Total London Market</b>	<b>580</b>	<b>6,731</b>	<b>-</b>	<b>240</b>	<b>12,133</b>	<b>-</b>
<b>Specialty</b>						
HCC Credit	1,492	2,054	3,918	2,071	967	3,488
Other	-	2	-	-	14	-
<b>Total Surety &amp; Credit</b>	<b>1,492</b>	<b>2,056</b>	<b>3,918</b>	<b>2,071</b>	<b>981</b>	<b>3,488</b>
Financial Lines	2,823	18,001	-	7,695	16,234	-
Other	1,029	260	-	1,279	533	-
<b>Total Specialty</b>	<b>3,852</b>	<b>18,261</b>	<b>-</b>	<b>8,974</b>	<b>16,767</b>	<b>-</b>
<b>Total</b>	<b>5,924</b>	<b>27,048</b>	<b>3,918</b>	<b>11,285</b>	<b>29,881</b>	<b>3,488</b>

## Appendix - Section E – Capital Management

The Branch forms part of the HCCII information on capital management which may be found in the Group SFCR Capital Management section. A summary of the branch capital management process is set out below:

The Finance team in London is responsible for demonstrating the ongoing solvency of the Branch on a quarterly basis. The necessary value of Tied Assets is calculated against the actual value of Tied Assets indicating the level of surplus or deficit held, including reinsurance.

As at 31 December 2017, the value of Total Needed Tied Assets for the Branch was USD 31.0m (2016: \$35.2m). The actual value of Tied Assets was \$37.6m (2016: \$35.4m). This represents a surplus of \$6.6m or 21.5%.

The Branch risks are included within the HCCII's Standard Formula SCR and internal model economic capital figures, to ascertain that HCCII maintains an adequate overall level of capital for all its risks. Further details on this may found in the Group SFCR Capital Management section.

In addition, the Branch risks are also included in consideration of the overall RST and compound scenarios, another key metric to ensure that HCCII maintains an appropriate overall level of capital for all its risks.