HCC International
Insurance Company plc

Annual Report and Consolidated Financial Statements

Year ended 31 December 2021

TOKIO MARINE
HCC

tmhcc.com

To be
a good company

Contents

Business Structure

HCC International Insurance Company plc (HCCII), a UK Insurance Company, and its subsidiaries (the Group) form part of the Tokio Marine Group (Tokio Marine), whose ultimate holding company is Tokio Marine Holdings, Inc. Tokio Marine is a leading international insurance group located in Tokyo, Japan that has 256 subsidiaries and 26 affiliates located worldwide, which undertake non-life and life insurance and operate within the financial and general business sector (including consulting and real estate).

As of 31 December 2021, Tokio Marine had total assets of ¥27.05 trillion (December 2020: ¥25.6 trillion) and shareholders' equity of ¥2.07 trillion (December 2020: ¥1.9 trillion). Tokio Marine and a number of its major insurance companies have a financial strength rating of A+ (Stable) from Standard & Poor's Financial Services LLC (S&P).

HCC Insurance Holdings, Inc. (TMHCC) is a subsidiary within Tokio Marine based in the United States (US). TMHCC is a leading international specialty insurance group with more than 100 classes of specialty insurance, which underwrites risks located in approximately 180 countries. Given its financial strength and track record of excellent results, it benefits from an S&P rating of A-.

TMHCC International (illustrated by the structure chart below) is comprised of the following four insurance platforms: HCCII, its wholly owned subsidiary; Tokio Marine Europe S.A., which is a Luxembourg insurance company, HCC Syndicate 4141 (a wholly aligned Lloyd's syndicate) and Houston Casualty Company (London Branch). The platform used is based on prescribed rules and if licensing permits, client choice.

Located in the United Kingdom and Continental Europe, TMHCC International, which had Gross Written Premiums (GWP) of $2.3 billion in 2021 (2020: $1.7 billion), is the TMHCC Group's operating segment outside of the US.

At 31 December 2021, the Group's subsidiaries are:

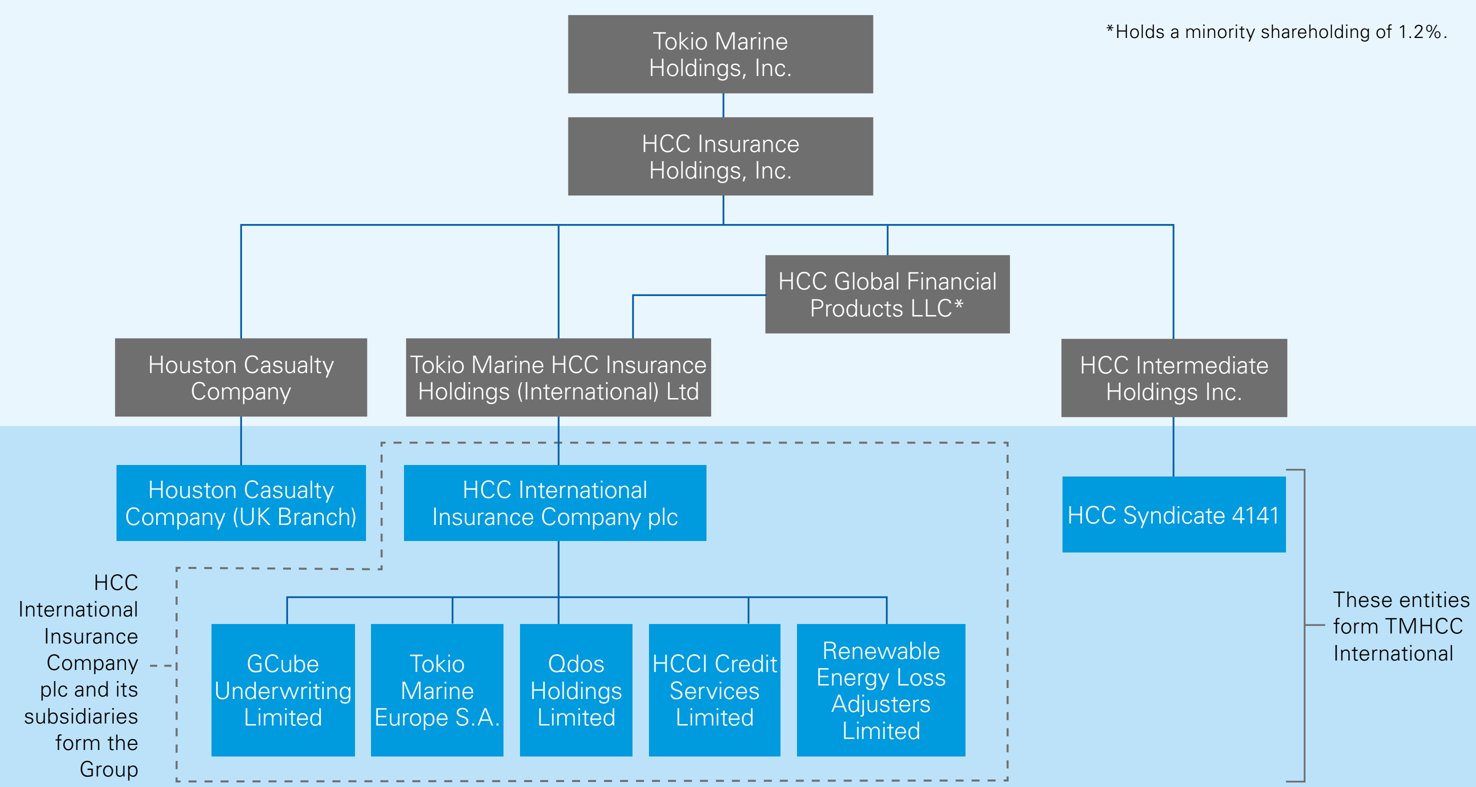
- GCube Underwriting Limited (GCube) an underwriting agency, that is one of the largest global underwriters of renewable energy, covering wind, solar, bio, hydro, wave and tidal projects;
- Tokio Marine Europe S.A. (TME);
- Qdos Holdings Limited (QHL), a UK underwriting agency and its wholly owned subsidiary, Qdos Broker and Underwriting Services Limited (QBuS), which distributes Professional Indemnity (PI), Employers and Public Liability (EL & PL) and Tax Enquiry and Liability (TEL) insurance to the UK small contractor market via Qdos Shop, an online digital distribution platform;
- HCCI Credit Services Limited (Credit Services). Credit Services provides data and information services and procurement of other services integral to the underwriting of several products within the International Specialty business; and
- Renewable Energy Loss Adjusters Limited (RELA) – RELA provides loss adjusting services to insurers of large renewable energy projects.

The Group is well capitalised and HCCII is the flagship entity of TMHCC International. HCCII and TME have standalone S&P ratings of A+.

During 2021, the Group conducted business in the UK and Europe through:

- HCCII's principal offices in London, its regional offices across the UK and its branch in Switzerland; and
- TME and its branches in Spain, Ireland, France, Germany, Italy, Denmark, Belgium, Norway, the Netherlands and the UK.

The results of the Group are included within these consolidated financial statements for the years ended 31 December 2021 and 2020.



Information as at 1 April 2022. This simplified structure chart shows ownership information for the principal operating entities within TMHCC International.

Geographical footprint

The map illustrates the locations of the Group's branches and offices throughout Europe

** 2 offices *** 3 offices **** 4 offices

Strategy

The Group's fundamental business philosophy is to produce an underwriting profit and investment income resulting in consistent net earnings that will increase shareholder value. This has been consistently accomplished through diversified businesses headed by those who are the best in the business, a comprehensive reinsurance programme, and a conservative investment policy. This philosophy is supported by TMHCC International's culture, which is underpinned by its core values: professionalism, discipline, honesty, respect, and trust.

Strategic Objectives

- Maintain a diversified portfolio of non-correlating businesses.
- Ensure sustainable growth through:
  - expansion of the Group's brand in the UK regional market, the London Market and throughout the rest of Europe; and
  - identification and development of opportunities to grow the Group's business through acquisition or establishing new lines of business.
- Maintain management, organisational and governance structures that are appropriate for, and support, the Group's growing business.

The balanced portfolio is achieved by underwriting a spread of business over time, segmented between different products, geographies, and sizes, and differentiating itself from competitors either in product offering, customer service or market positioning. This results in a diverse and balanced portfolio of risks across lines of business, which limits volatility and enables the Group to consistently achieve an underwriting profit that increases shareholders' value.

Diversified portfolio of specialty business

The Group has very strong security (HCCII and TME both have S&P ratings of A+ and Fitch ratings of AA-). This provides the policyholder with the knowledge and comfort that the Group will be able to honour its obligations when called upon to do so. Financial strength is a key differentiator for the Credit, Surety and Financial Lines businesses and allows the Group to access the highest quality risks where an insurer's financial strength carries a premium.

Financial security

The Group has consistently delivered its strategic plan as a result of the following **key strengths:**

Skilled and entrepreneurial management

The Group has a flat management structure with an experienced and entrepreneurial executive team. This enables flexible adaptation to the changing business environment, resulting in faster decision making and responsiveness to opportunities.

Prudent risk management

The Group's conservative risk appetite and approach to risk management ensures that risks are identified, monitored, and mitigated. Reinsurance is one of the most important risk mitigation tools used to limit exposure, reduce the volatility of various lines of business and preserve capital.

Operational efficiency

TMHCC International manages its portfolio by line of business through a single integrated operating model. This provides operational efficiencies across TMHCC International, which benefits the Group.

Strategic Initiatives

The Group's strategic growth initiatives have historically come from existing underwriting relationships and are affected through the acquisition of underwriting agencies or hiring of leading market individuals who have the requisite track record.

GCube

Following HCCII's acquisition of GCube in 2020, from 1 January 2021, 100% of GCube's business was underwritten on TMHCC International platforms, bringing further opportunities for growth and diversification throughout TMHCC International.

Marine Cargo

In late 2020, TMHCC International took the strategic decision to develop its marine product offerings and hired a leading Marine Cargo underwriting team, which will complement the existing Marine Hull and Marine Liability lines of business. This business brings some aggregation with other marine classes already written by the Group but is largely a diversifier within the wider insurance and reinsurance business.

Other Growth

International Specialty

The segment has experienced significant organic growth in 2021 driven by Financial Lines (42.9% increase in GWP from 2020) due to positive market conditions; and Professional Risks (33.1% increase in GWP compared with 2020) as a result of improved market conditions and new initiatives.

London Market

Growth in the segment during 2021 has been driven by Marine and Energy, which reported a GWP increase of 81.4% from 2020, from the positive market conditions and the new strategic initiatives (GCube and Marine Cargo).

Resilience During Covid-19

The Covid-19 pandemic has brought unprecedented challenges for everyone. Throughout 2021, the Group continued to operate effectively within the varying lockdown restrictions in the UK and across Europe, successfully supporting its customers, brokers, and employees throughout these challenging times.

The health, safety and wellbeing of its employees has been a priority for the Group during the pandemic. To enable its employees to work safely and securely in a remote working environment, the Group ensured that: it has robust IT infrastructure; its employees have access to appropriate IT and office equipment; and it has supported the physical and mental wellbeing of its employees. In September 2021, the Group introduced a Dynamic Working Policy that provides employees with increased flexibility in how they work as the Group moves to a hybrid working environment, which it believes is the new way of working.

Throughout the pandemic, employees received regular communications from the CEO providing updates on how the Group continued to operate and support its customers. In addition, employees were provided with regular communications and resources to support their wellbeing following the transition to new ways of working due to the pandemic. More detail on the wellbeing initiatives undertaken during the year are set out in the People section on page 30.

Despite the challenging environment, the Group has achieved another record technical result in 2021, demonstrating the resilience of its business model and its strategy to have a diversified portfolio of non-correlating business. The financial strength of the Group combined with its strong stakeholder relationships and open and supportive culture positions the Group for continued success. The Group's underwriting result, investment strategy and liquidity meant it was well positioned against rising interest rates and unrealised losses on its investment portfolio in 2021.

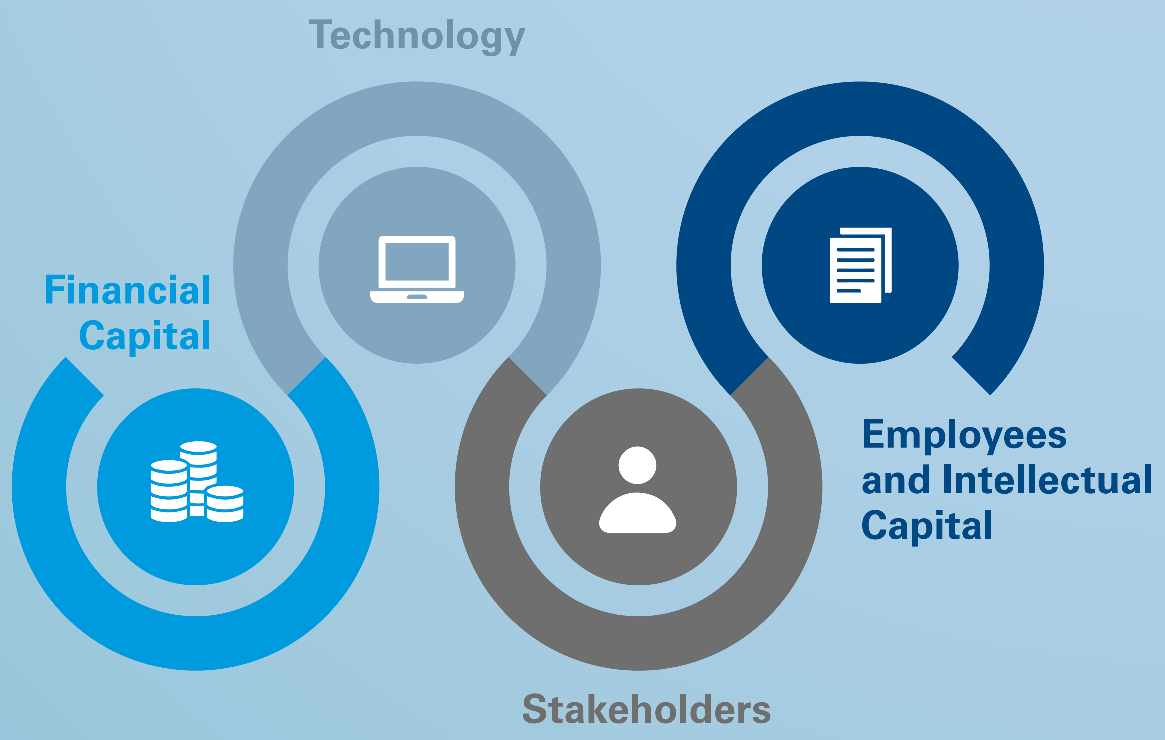
Business Model

Purpose

TMHCC International's purpose is to deliver risk solutions to its clients that provide continuity in times of business disruption. Highly specialised, quality underwriting that delivers clearly articulated and transparent products will inspire the trust and confidence of its clients. Skilful and sustainable reinsurance purchasing, careful investment of premium, conservative reserving and fair claims handling provide TMHCC International with a solid foundation upon which to apply Tokio Marine's 'Good Company' approach to business.

Generating Value

In order to achieve its purpose and deliver its strategy, the Group, operating as part of TMHCC International and in line with its stated purpose, relies on the following key resources and relationships to support the generation and preservation of value throughout all aspects of its business model.



Financial Capital

The Group has a strong balance sheet, its capital is well in excess of regulatory requirements, and HCCII and TME both have a financial strength rating of A+ from S&P. This rating is equivalent to the rating of the Group's ultimate parent company, the TM Group, as S&P views TMHCC as core to Tokio Marine. The Group's financial performance (detailed in the Business Performance section on pages 26 – 42) consistently generates value for its shareholders.

Technology

The Group has technology solutions that generate value throughout its business. These include catastrophe modelling and aggregation tools; e-distribution portals for its products; capital modelling tools; policy and claims administration; and IT security software to increase its IT resilience. The Group continues to invest in technology as the business grows.

Employees and Intellectual Capital

The Group recognises that throughout all areas of the business it needs to attract and retain highly skilled, disciplined, and experienced individuals of exceptional quality who thrive in a constantly changing environment. This gives us the foundation to empower people to be at the forefront of providing specialty insurance solutions that consider the fast-changing impacts of climate change, technological disruption and other issues that may adversely affect clients. The actions taken by the Group to manage, sustain and develop its employees are detailed in the People section on page 28.

Stakeholders

Strong stakeholder relationships are important, including clients, distribution network, shareholders, regulators, and suppliers. The Group's relationships with its stakeholders are vital to its ongoing success. The actions it takes in respect of those stakeholder relationships are detailed on pages 13-17.

The Group's business model is built upon fundamental principles that provide policyholders with confidence about their risk decisions.

Face risk with confidence

Protecting our customers from risk, and allowing them to take on opportunity with confidence

Distribution network
Providing clients with products through the distribution network

Reserves
Accurate, reliable and consistent reserves with S&P rating of A+

Underwriting and managing risk
Disciplined underwriting, careful risk selection and risk reinsurance

Claims management
Treating customers fairly, timely processing and settling of claims

Investment
Preserve and grow shareholders' equity through conservative treatment

Face risk with Confidence

The Group's core business is underwriting specialty lines of insurance. The Group has three core underwriting segments: International Specialty; London Market; and J Business. More details are provided on page 18.

The segments offer products in the UK from HCCII's London and regional offices; and in Europe through TME's European branches and across the rest of the European Economic Area (EEA) via Freedom of Services authorisations. HCCII accepts global inwards reinsurance risks where its licences permit. The majority of the business underwritten by the London Market, International Specialty and J Business is commercial lines, although personal lines business is written within these segments.

Providing Clients with Products Through the Distribution Network

The London Market, International Specialty and J Business products underwritten by the Group are distributed to clients through established broker (wholesale, regional and specialty), underwriting agency and coverholder relationships. Additionally, certain International Specialty and London Market business is underwritten through online distribution portals.

Underwriting and Managing Risk

Careful risk selection and reinsurance purchasing is central to the Group's culture and is the foundation to grow by meeting or exceeding its target risk-adjusted return. The Group's experienced technical underwriters underwrite each risk individually, assessing a range of factors, including but not limited to: financial exposure, loss history, risk characteristics, limits, deductibles, terms and conditions, and acquisition expenses using rating and other models. The Group may delegate underwriting where distribution is held by coverholders or brokers. However, this is through standard rating sheets and referral controls for risks that require non-standard pricing.

Reserves

The Group's reserving policy safeguards reliable and consistent reserve estimates across all classes of business, maintaining overall reserves at, or above, the actuarial midpoint. The reserving process is embedded into the governance framework which requires that an internal and robust review of reserves is carried out at least quarterly by management with actuarial support.

Investment

The Group has a conservative investment strategy. Funds are invested in accordance with the Solvency II risk-based approach to investments and the 'prudent person principle', which ensures that assets are of appropriate security, quality, and liquidity; are adequately diversified; and broadly match the Group's liabilities.

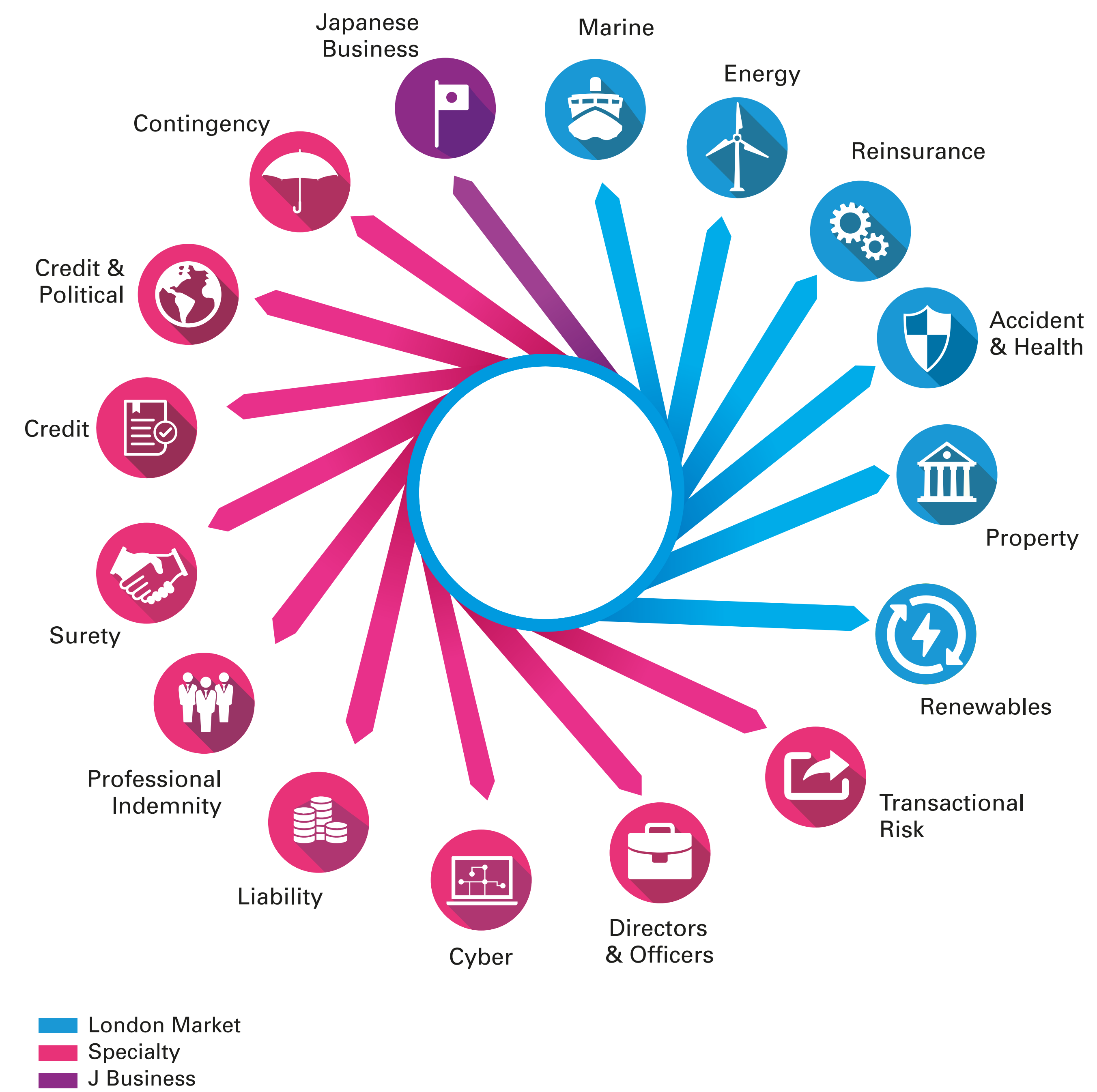
Claims Management

The Group recognises the importance of the claims settlement process and believes that it can differentiate itself from its competitors through its approach. The claims teams are focused on delivering a quality, reliable and efficient claims service by adjusting and processing claims fairly and in a timely manner, ensuring that customers are treated fairly and in accordance with policy terms and conditions.

Products

The Group has three core underwriting segments:

International Specialty
London Market
J Business



Stakeholder Engagement and Section 172 Statement

The Board makes decisions to ensure long-term success for the benefit of the Group and its stakeholders. The Board acknowledges that strong relationships with its key stakeholders (employees, shareholders, clients, brokers, and regulators) and its responsibilities to its communities and the environment, are vital to its ongoing success. The Group adopted The Wates Corporate Governance Principles for Large Private Companies and the Board has set out how it has applied those principles to make decisions for the long-term success of the Group and its stakeholders in the Corporate Governance Report on pages 41 to 51.

The Board ensures that it considers the impact of strategic and operational decisions on the Group's stakeholders and discharges its section 172 responsibilities through a combination of the following:

- standing agenda points and papers presented at each Board meeting;
- a rolling agenda of matters to be considered by the Board throughout the year, which includes consideration of the Strategic Business Plan, supported by a three-year budget;
- regularly scheduled Board presentations and reports that include areas that are important to the Group's stakeholders – for example, Modern Slavery Statement and updates on climate change/sustainability;
- formal consideration of the section 172 factors that are relevant to any major decisions taken by the Board including acquisitions and new/exited lines of business; and
- consideration and discussion of areas relevant to stakeholders through the risk management framework and governance structure via standing agenda items at meetings of the Board's Committees and Sub-Committees/Groups.

How the Group Engages with its Stakeholders

Why it Engages	How it Engages	Examples of Actions Taken in 2021	Examples of Stakeholder Outcomes	Find Out More
Employees				
The Group employs experienced, diverse, and dedicated employees who are a key asset to the business and are fundamental to its long-term success. A key element of Tokio Marine's Good Company ethos is to Empower Our People. Therefore, it is important that the Group continues to engage with and provide development opportunities for employees.	The Group has a number of established engagement mechanisms in place for employees: • Communication from the Chief People Officer (CPO), the Workplace Group and Social Committee; • Communications from the CEO; • 1:1 meetings with managers; • performance management system; • Workplace Group; • Culture and Values Survey; and • Workplace strategies including - Wellbeing Strategy (including the Wellbeing Survey); - Diversity and Inclusion Strategy (D&I); and - Learning and Development Strategy (L&D). The Board receives updates from the CPO relating to D&I, L&D, employee wellbeing, and corporate culture and values.	The Workplace Group approved the extension of rotating employee representatives' appointments to 24 months and the appointment of three new rotating members for 2022. The Board approved the Workplace Strategies. Foundations of Leadership training programme for new managers was launched. The Group continues to invest in additional resources within the HR team (recruitment and L&D) to support the business growth. The Group undertook a Wellbeing Survey to gain additional insights and feedback from employees on their experiences of working remotely and how the Covid-19 pandemic has affected their wellbeing. Development of and launch of Dynamic Working Policy in Q3 2021. Virtual wellbeing activities and social events. Culture Dashboard developed during 2021 and approved by the Board at the September 2021 meeting.	The TMHCC Group undertakes an annual Culture and Values Survey. The response rate to the 2021 Survey was 61%. The overall results continue to improve and the areas that scored highly were: Group Attachment, Culture, Look Beyond Profit, and Compliance. The Workplace Group met six times during 2021 and discussed improvement suggestions relating to ways of working and the Group's Workplace Strategies.	Business Structure: pages 4-5 Business Model: pages 8-11 People: page 28 Non-Financial KPIs: page 34 Business Conduct and Ethics: pages 29-30

Why it Engages	How it Engages	Examples of Actions Taken in 2021	Examples of Stakeholder Outcomes	Find Out More
Clients and Brokers				
The International Specialty, London Market and J Business products underwritten by the Group are distributed to its clients through established broker (wholesale, regional and specialty) relationships. Understanding clients' needs and providing them with the right solutions at the right price is fundamental to the Group's performance.	Building long-term relationships with its clients and taking the time to understand clients' individual requirements is of the utmost importance to the Group. During the year, the Group engaged with its clients and brokers through: • Business Development team; • Claims team; • Compliance team; • direct conversations; • marketing activities including social media; • Virtual broker roadshows/ events; • Broker expo event; and • Broker communications/ newsletters – sector market updates.	The Group has invested in additional resources within the Claims and Compliance teams to support the new lines of business and growth in the existing lines of business.	Increased product offerings. GCube and Marine Cargo. Online portals for London Market and International Specialty business.	Business Structure: pages 4-5 Business Model: pages 8-11 Business Performance: pages 18-24
Shareholders				
The Board continues to align the Group's strategic objectives to its purpose and to shareholders' long-term objectives in order to produce consistent and sustainable results that increase shareholder value.	The Group has an ongoing dialogue and regular engagement with its immediate shareholder HCC Insurance Holdings, Inc. and its ultimate parent company Tokio Marine Holdings, Inc. through: • Quarterly results presentations; • 1:1 meetings; • Annual Report and financial statements; • The Tokio Marine Corporate Liaison Officer (who works within the Group); and • Tokio Marine representative, who is appointed to the Group's Board and provides an additional method of communication between the Board and its ultimate shareholder.	The CEO and Executive team have regular dialogue with the Group's shareholders – both immediate and ultimate.	The Group's Board ensures that in all its decision making it considers the long-term consequences of its actions and is acting in good faith and for the benefit of its shareholders.	Business Structure: pages 4-5 Business Model: pages 8-11

Why it Engages	How it Engages	Examples of Actions Taken in 2021	Examples of Stakeholder Outcomes	Find Out More
External Partners				
The Group's relationships with its reinsurers continues to be central to its business model and management of risk. The Group works with a number of key suppliers and third parties. HCCII is authorised by the Prudential Regulatory Authority (PRA) and regulated by the Financial Conduct Authority (FCA) in the UK, and TME is authorised by the Commissariat aux Assurances (CAA) in Luxembourg.	The Group has an ongoing dialogue with its reinsurers, key suppliers and third parties. The Board receives updates on the Group's reinsurance and third-party arrangements. The Group maintains an open and transparent dialogue with its regulators that is facilitated through the Compliance Department. The Executive and Non-Executive Directors have ongoing engagement with the Group's regulators, including requests to discuss specific matters.	The CEO and Chief Underwriting Officers (CUOs) provide regular updates on the renewal of the Group's reinsurance purchasing. Head of Procurement and Supplier Management appointed in 2021. Regulatory communications and discussions are reported to and discussed by the Board.	The Group monitors, through its Emerging and Developing Risk framework, matters that may have a strategic impact on the industry and the Group's business. The Group monitors regulatory announcements and developments, and these are reported to the Board for discussion. Due diligence and third-party frameworks and procedures outline the Group's expectations for responsible and ethical business.	Business Model: pages 8-11 Business Conduct and Ethics: pages 29-30 Principal Risks and Uncertainties: 36-39
Environment				
The Group continues to investigate and identify environmental and climate related risks and opportunities within its business and to develop its Sustainability Strategy.	Increased use of video and teleconferencing to reduce travel. Communications from the Sustainability Committee. ClimateWise membership and participation in project/working groups. Meetings relating to the Climate Risk Project, established in part to respond to the PRA's expectations set out in Supervisory Statement 3/19 regarding management of financial risks from climate change. The Board receives updates from the Sustainability Committee and Climate Risk Committee on its initiatives and on the Climate Risk Project.	Commenced the Climate Risk Project. Reported against the ClimateWise Principles (aligned to the Task Force on Climate-related Financial Disclosures (TCFD)) and improved scores from previous report. Third-party verification of carbon emissions to support Streamlined Energy and Carbon Reporting (SECR) reporting. Supported environmental charity and partner (Trees for Cities).	Ongoing improvements relating to recycling and energy usage. Increased awareness and understanding of environmental initiatives among employees.	Business Model: pages 8-11 Good Company Approach: page 25 Climate Risk: pages 31-33

Why it Engages	How it Engages	Examples of Actions Taken in 2021	Examples of Stakeholder Outcomes	Find Out More
Charity and Community				
A core component of Tokio Marine's Good Company ethos is Look Beyond Profit, acting with integrity for the benefit of society. The Group is committed to supporting the communities in which it operates.	The Group engages with its local communities through: • charity partnerships; • employee volunteering; • charity ambassadors; and • fundraising events. The Group's charitable and community activities are communicated to the Board via the Sustainability Committee.	Employees participated in several charity events during 2021, including the 3 Peaks Challenge, It's a Knockout and Trees for Cities tree planting. Environmental charity selected and supported (Trees for Cities). The Group's charitable contributions totalled $643,800.	The Group's charity partners benefit from consistent financial support and volunteering activities and increased visibility.	Business Model: pages 8-11 Charity and Community: pages 26-27

Principal Decisions of the Board 2021

The decisions highlighted below are examples of the principal decisions made by the Board during 2021 that considered the impact of strategic and operational decisions on the Group's stakeholders.

Culture Dashboard

In 2020, the Board undertook a facilitated discussion on its culture and values, considered the insights from employee and executive workshops and how the Group's culture helps it to achieve the purpose, values, and strategy. The Group continued to develop its People Strategy during 2020 and 2021. Taking further steps to monitor the Group's culture and ensure that it is aligned with its purpose, values, and strategy through the development of a Culture Dashboard to facilitate the quarterly reporting and monitoring of culture indicators appropriate to the Group's business.

The Board considered and approved the Culture Dashboard recognising the importance of the Group's culture to its performance and long-term value and considered additional channels for engagement with employees regarding the Group's culture.

Dividend Policy

In 2021, the Board received a proposal to establish and implement a Dividend Policy. The Dividend Policy reflects the Group's strong financial performance and its capital and solvency position, and provides the Board with a framework and scenarios and sensitivities that would be applied when determining a future dividend.

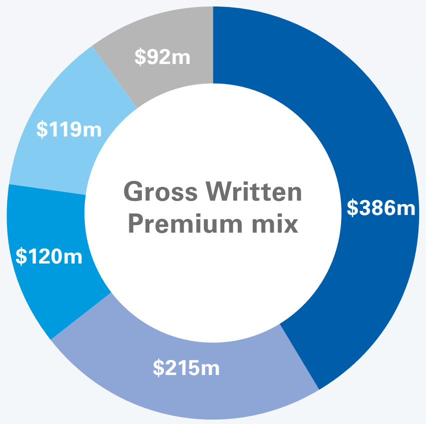
The Board considers that adopting the Dividend Policy, which is sufficiently flexible to respond to the economic and market cycle, enables it to create long-term value for the Group, whilst providing returns to its shareholders.

Underwriting Segments

International Specialty

The International Specialty lines of business are comprised of:

- Financial Lines;
- Professional Risks;
- Credit & Political Risk;
- Surety; and
- Contingency & Other.



Financial Lines
Professional Risks
Credit & Political Risk
Surety
Contingency and Other

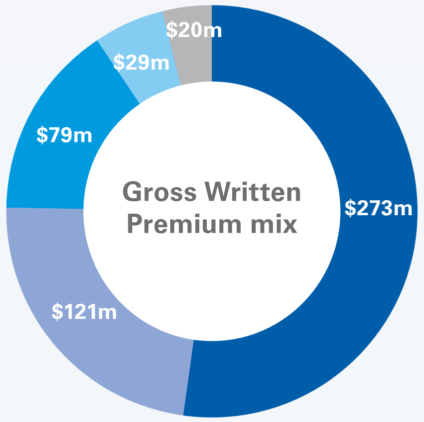
Gross Written Premium
$931.8 million
(2020: $725.2 million) UP 28%

Underwriting Result[1]
$144.5 million
(2020: $88.5 million) UP 63%

London Market

The London Market segment includes the following lines of business:

- Marine & Energy;
- Property Treaty;
- Property Direct & Facultative;
- Accident & Health; and
- Delegated Property.



Marine & Energy
Property Treaty
Delegated Property
Property D&F
A&H

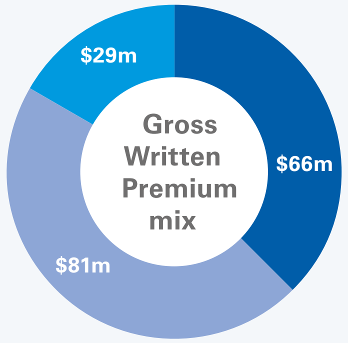
Gross Written Premium
$521.8 million
(2020: $314.6 million) UP 66%

Underwriting Result[1]
$51.1 million
(2020: $44.1 million) UP 16%

J Business

The J Business segment consists of commercial insurance coverage provided to Japanese corporate clients in respect of their overseas business interests:

- J Business Property;
- J Business Marine & Aviation; and
- J Business Liability.



J Business Property
J Business Marine & Aviation
J Business Liability

Gross Written Premium
$174.9 million
(2020: $155.6 million) UP 12%

Underwriting Result[1]
$4.7 million
(2020: $3.4 million) UP 38%

[1] Underwriting result excludes exited lines and other

Financial Key Performance Indicators (KPIs)

GROSS WRITTEN PREMIUMS

2021 $1,628.5m
2020 $1,195.4m
Increase of $433.1m

NET PREMIUMS WRITTEN

Net of reinsurance.

2021 $1,030.8m
2020 $778.2m
Increase of $252.6m

UNDERWRITING RESULT

Balance on technical account (before investment income).

2021 $187.0m
2020 $124.1m
Increase of $62.9m

NET LOSS RATIO

Ratio of net incurred claims to net earned premiums.

2021 45.3%
2020 46.3%

NET COMBINED RATIO

Ratio of total technical charges (before investment income) to net earned premiums.

2021 79.6%
2020 82.4%

INVESTMENT INCOME

Earned investment income transferred from the Non-Technical Account.

2021 $29.5m
2020 $26.3m

CASH AND INVESTMENTS

Excluding investment in subsidiaries and land and buildings.

2021 $2,111.8m
2020 $1,804.7m
Increase of $307.1m

CONSOLIDATED SHAREHOLDERS' FUNDS

2021 $1,132.6m
2020 $1,005.4m
Increase of $127.2m

Results and Performance

The Group's growth has continued in 2021 with Gross Written Premium (GWP) reaching $1.6 billion, up 36.2% ($433.1 million) in 2021. This increase was the result of continued organic growth from strong market conditions across the Group's segments, particularly in International Specialty (up 28.5%) and new initiatives in London Market (up 65.9%). International Specialty includes strong performance in Financial Lines (up 42.9%) and Professional Risks (up 33.1%). The increase in London Market was primarily driven by continuing initiatives such as growth in the Marine team, Delegated Property (which commenced in 2020) and GCube (with its first full year of underwriting in 2021), as well as organic growth in its existing lines.

The underwriting result on the technical account excluding investment income was $187.0 million (2020: $124.1 million), resulting in a combined ratio of 79.6% (2020: 82.4%), with strong profits from both the London Market and International Specialty segments.

In the International Specialty segment, the 2021 technical result was $144.5 million (2020: $88.5 million). Results were driven by continued organic growth and good rating conditions, particularly in Financial Lines, Professional Risks, Credit & Political Risk and Surety. The Contingency line of business has been impacted by Covid-19, with a dampening effect on the top line from reduced economic activity and the losses in the event cancellation business, although to a lower extent than seen in 2020.

In the London Market segment, the 2021 technical result was $51.1 million (2020: $44.1 million). Results were impacted by catastrophe (CAT) losses in 2021 from the European Floods event. This has been more than offset by the impact of the top line growth described above and the placement of reinsurance to limit exposure to catastrophe losses.

In 2021, the J Business segment contributed $4.7 million (2020: $3.4 million) to the technical result. Given the nature and complexity of the J Business and its importance to a larger global portfolio, the business is fully ceded within Tokio Marine to Tokio Marine & Nichido Fire (TMNF). The contribution to the technical result represents the ceding commission, which is set to achieve moderate profit for the Group and covers the acquisition and operating costs of the business.

For the financial year 2021, the Group made a net profit before tax of $166.7 million (2020: $176.9 million) of which $216.5 million (2020: $150.4 million) was from the technical account for general business, which included investment income of $29.5 million (2020: $26.3 million), with the investment return contributing significant volatility to the results compared with the prior year, due to the movement in unrealised gains/losses consistent with market conditions and US interest rate environments.

Investment income transferred to the technical account comprises earned investment income (net of investment expense) reflecting the Group's investment strategy, which is to preserve and grow shareholders' equity principally from underwriting profits in addition to net investment income within a conservative investment policy. The Group's solid operating cash flow and robust capital position supports this approach over one of managing total yield inclusive of unrealised gains and losses.

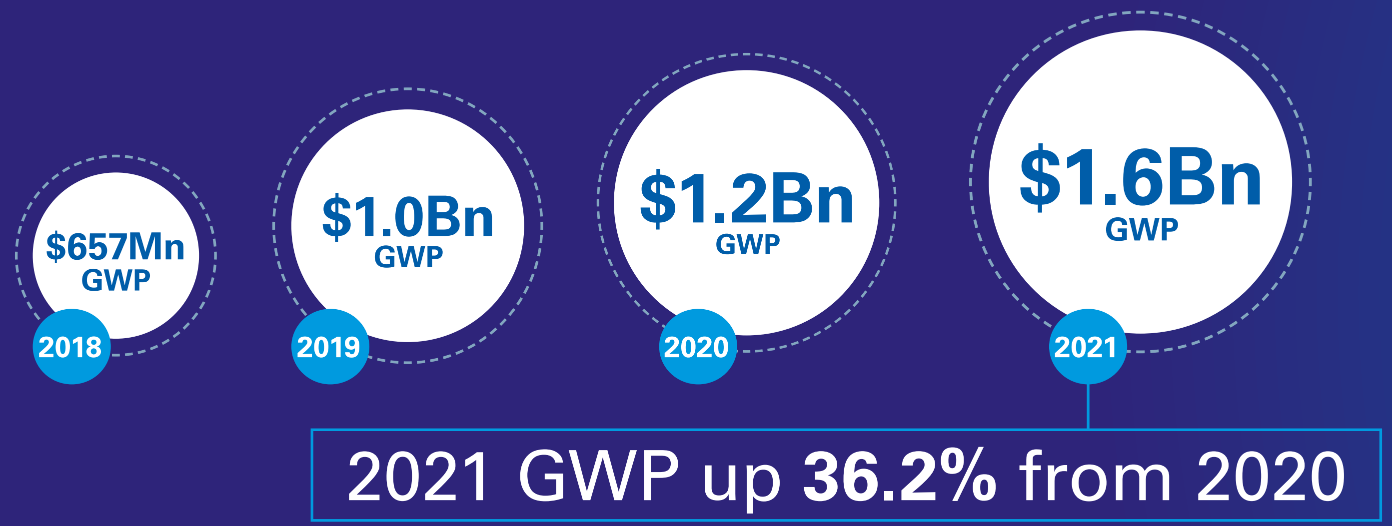
The non-technical account items decreased the balance on the technical account for general business by $49.8 million (2020: increase of $26.3 million) due to the net unrealised losses on the Group's fixed-income portfolio of $37.6 million (2020: $49.9 million net unrealised gains). This is consistent with the effect of US interest rate increases during the year on the Group's investment portfolio, which is principally in US dollar fixed-income securities. The decrease also includes amortisation of goodwill and intangibles totalling $11.5 million (2020: $10.7 million) and other operating expenses.

Overall, the Directors are satisfied with the Group's operations and its financial position at 31 December 2021.

Gross Written Premium

2021 Gross Written Premium (GWP) increased 36.2% ($433.1 million) to $1,628.5 million (2020: $1,195.4 million). This was driven by a combination of the new business written by the Group in 2021, together with improved market conditions on existing business lines – most notably across the International Specialty classes.

The significant growth in the Group's GWP from 2018 to 2021 is illustrated below.



HCCII GWP analysis

	2021	2020	Increase/(decrease)	
	$'m	$'m	$'m	% change
Financial Lines	385.9	270.0	115.9	42.9%
Professional Risks	214.5	161.1	53.4	33.1%
Credit & Political Risk	120.3	108.3	12.0	11.1%
Surety	119.4	102.1	17.3	16.9%
Contingency and Disability	52.9	51.5	1.4	2.7%
Other	38.8	32.1	6.7	20.9%
Total Specialty Segment	**931.8**	**725.1**	**206.7**	**28.5%**
Marine & Energy	273.0	150.5	122.5	81.4%
Property Treaty	121.1	98.1	23.0	23.4%
Property D&F	29.3	25.8	3.5	13.6%
Delegated Property	78.6	26.8	51.8	193.3%
Accident & Health	19.8	13.4	6.4	47.8%
Total London Market	**521.8**	**314.6**	**207.2**	**65.9%**
J Business	174.9	155.7	19.2	12.3%
Total	**1,628.5**	**1,195.4**	**433.1**	**36.2%**

International Specialty

Financial Lines

GWP increased by 42.9% with the growth driven by improved market conditions in Commercial PI, US traded Directors & Officers (D&O) and Australian Financial Lines, continuing growth in Cyber business and the recovery of the Transaction Risk Insurance (TRI) business following the effect of Covid-19 on the Mergers & Acquisitions (M&A) markets activity throughout 2020 (where premium volume in 2021 has returned to pre-Covid levels as M&A markets recover).

Professional Risks

GWP increased by 33.1%. The business includes two main product lines; Professional Indemnity (PI) and Liability – with growth primarily driven by improved market conditions in PI and new initiatives across the portfolio.

Credit & Political Risk

GWP increased by 11.1%. The Group offers a full range of Credit & Political Risk insurance solutions for both financial institutions and small and large commercial companies. The UK whole turnover Credit team have distinguished the Group with high service standards in both underwriting and claims handling positions and with high client retention and is one of the leading Credit insurers in the UK. The UK market for this business is particularly challenging given current economic uncertainties and the difficulties experienced by the UK retail sector.

Surety

GWP increased by 16.9%. The Group's position in the market, together with its strong S&P rating, provide good opportunities for Surety to sell performance bonds and other bond products, supporting large multi-national companies involved in significant infrastructure projects. Growth in the European Surety business has driven growth in 2021.

Contingency & Disability

GWP increased marginally by 2.7%. The Contingency book continues to face challenges as the Group's event cancellation market has yet to return to pre-pandemic levels; this is more than offset by the impact of improved market conditions in Disability.

Other

Comprises a portfolio of Marine Transport business and Kidnap and Ransom business.

London Market

Marine & Energy

Energy GWP increased by 81.4% comprising Energy, Marine Hull, Marine Liability, Marine Cargo and GCube. The increase is driven by better rating conditions and the impact of new initiatives GCube ($71.3 million) and Marine Cargo ($7.4 million).

Property Treaty

GWP increased by 23.4%. The portfolio principally comprises non-US excess of loss reinsurance business. The strategy of continuing strong client relationships and participation on high programme layers has grown the portfolio. The consistent and responding reinsurance programme, has consistently produced profitable results. The European portfolio on TME is now well established, where clients prefer it over Lloyd's Insurance Company, Brussels.

Property Direct & Facultative

GWP increased by 13.6%. Modest growth in the year reflected small rating environment improvements but not to the extent expected following the large losses and catastrophes in 2020.

Accident & Health

GWP increased by 47.8% with growth driven by reduced competition as insurers reduce line size or leave the market in response to Covid-19. The portfolio continues to maintain market-leading profitability due to disciplined underwriting and realistic growth expectations.

Delegated Property

GWP increased by 193.3%. This is a line of business established in 2020 that adds good diversification to other Property business. The business primarily consists of a niche book of predominantly UK Property business, written via risk attaching binders with the year-on-year growth reflecting the risk attaching writing pattern as well as organic growth.

J Business

GWP increased by 12.3%. The segment consists of commercial insurance coverage provided to Japanese corporate clients in respect of their overseas business interests. The increase in premium of $19.2 million in the year primarily reflects the organic growth in the existing portfolio.

Investment Performance

New England Asset Management is the investment manager for the US Dollar, Sterling, Euro and Swiss Franc funds, which consist primarily of a portfolio of highly rated corporate bonds, that have an average rating of AA- and do not include any securities with less than a BBB rating. This also includes bonds guaranteed by the US, UK and German governments. The average duration of the aggregate portfolios at the year-end was 4.7 years (2020: 4.6 years). Delphi Financial Group, Inc. (Delphi), an investment manager within the Tokio Marine group of companies, manages the alternative investment class entered into in 2019, which comprises 4% (2020: 4%) of the Group's consolidated invested assets.

Earned investment income (excluding the unrealised gains and losses) totalled $29.5 million (2020: $26.3 million).

As of 31 December 2021, the fair market value of the investment portfolio generated unrealised losses of $37.6 million, upon which there were foreign exchange (FX) losses on non-USD bonds of $3.5 million. This resulted in total unrealised losses of $41.1 million for the year reversing unrealised gains made in 2020, principally driven by the rising US Treasury, bond and gilt rates. Such rate increases have been led by continuing concerns surrounding elevated inflation throughout 2021 and the Fed's rate hiking path in December 2021 in response to such inflation.

Balance Sheet

The balance sheet of the Group shows total assets of $4,095 million (2020: $3,442 million) and shareholders' equity of $1,133 million (2020: $1,005 million). Of the total assets, $2,112 million, 51.6% (2020: $1,805 million, 52.4%) was represented by financial investments and cash at bank. Net technical liabilities from insurance contracts were $1,398 million (2020: $1,178 million).

HCCII's regulatory solvency position is measured on a 'solo' basis, which requires the treatment of the strategic investments in TME, GCube and QHL on a Solvency II 'look through' basis, with capital requirements equal to those required for other equity investments. This results in a solvency ratio in excess of 160% as at 31 December 2021 (2020: 175%). The decrease in the solvency ratio is driven by capital requirements to fund business growth.

The Vision

The Group shares Tokio Marine's **Good Company** vision.

The core principles of this vision are integral to the Group's culture and, business and the creation of sustainable growth and value for all its stakeholders (customers, employees, distribution network, suppliers, shareholders, regulators, and the community).

To support the Good Company approach to being a sustainable and responsible business, the Group has a sustainability governance structure (illustrated below) that covers a wide range of Environmental, Social and Corporate Governance (ESG) issues relevant to its business and stakeholders.

The Group's approach to sustainability includes the following areas of focus:

Charity and community

Investing in the wider community by developing partnerships with charities as well as organising relevant fundraising and volunteering initiatives and actively engaging employees in these projects to make a difference.

Workplace

Developing the Group's diversity and inclusion practices, ensuring and promoting the health and wellbeing of employees and providing learning and development opportunities for all employees.

Climate Risk

The identification, assessment, and management of physical, transitional and liability risks and opportunities from climate change and the development of initiatives to minimise the Group's environmental impact from its business and operations.

Business conduct and ethics

Conducting business:

- ethically
- honestly
- responsibly

In 2021, the Group donated over $556,000 to support charities and fundraising initiatives.

Charity and Community

The Group strives to be a Good Company. One of the core principles of this vision is acting for the benefit of society and the communities in which the Group operates. To do this, the Group's Charity Committees have a strategy to channel support through:

- support of employees' charitable efforts – either through additional time off (each employee is allowed two volunteer days per annum), or financial contribution towards charitable fundraising undertaken by employees; and
- formation of multi-year charity partnerships that provide annual financial contributions to chosen charities – employees are encouraged to be actively involved with charity partners through fundraising, volunteering, raising awareness and educational activities.

The aims of the Group's Charity Strategy are to make a difference within local communities and to educate and inspire employees to generate positive change. To deliver its Charity Strategy, the Group established Charity Committees in the UK and Europe that develop new and existing charity partnerships and organise a programme of activities and initiatives. Aligned with the Group's approach to sustainability, the annual charity programme of events and initiatives is designed around four pillars:

During 2021, the Group continued to implement its strategy with the addition of an environmental charity (Trees for Cities) to its charity partnerships. It also continued furthering employee engagement through sponsorship of fundraising events and activities in support of its partner charities.

In 2021, the Group donated over $556,000 (2020: $470,000) in its support of charitable groups and employee fundraising initiatives. Employee fundraising in 2021 totalled $87,800, therefore total charitable giving in 2021 was $643,800.

Responding to Covid-19

In 2021, the Group recognised the need to continue to support causes and charities in the UK and Europe impacted by Covid-19. Following feedback from employees, the Group donated to several local organisations helping victims of domestic abuse rebuild their lives.

Charity Partnerships

The Group formally supports 17 charity partners across the UK and Europe that are aligned with the Group's Charity Strategy, providing annual donations, and supporting them to deliver impactful initiatives. Examples of how working together has made a difference in 2021:

DIVERSITY AND INCLUSION

Facing History and Ourselves (UK)

Facing History and Ourselves use lessons of history to challenge teachers and their students to stand up to bigotry and hate, through providing professional development training for teachers and academically rigorous classroom resources. In 2021, the Group's funding has supported them to extend their reach by adding more than 1,500 teachers to their network, training 660 teachers and producing new resources, enabling more students to develop the critical thinking skills that lead them to become more compassionate, informed citizens.

HEALTH AND WELLBEING

LAMP (UK)

The Group provided an additional donation to establish an Early Intervention Mental Health Hub, recognising the increased demand for mental health services during the Covid-19 pandemic.

ENVIRONMENTAL IMPACT

Trees for Cities (UK)

The Group helped to fund an Edible Playground Programme at Plaistow Primary School in Newham, London. The Edible Playground will be integrated into the curriculum allowing all pupils to learn important life lessons, including healthy eating.

COMMUNITY DEVELOPMENT

Nexe Fundació (Spain)

Nexe Fundació supports children and young people with severe disabilities through a specialised care centre that offers tailor-made treatment and daily assistance. The Group's donation funds the Respira y Ocio (Breathe & Leisure) programme that offers adapted leisure activities every weekend and summer camps (unique in Catalonia), helping 108 children and 200 families in 2021.

COMMUNITY DEVELOPMENT

Emmaüs Connect (France)

The pandemic has highlighted the issue of digital exclusion. Emmaüs Connect fights against this by supporting the most vulnerable groups in society including the unemployed, homeless, elderly, and young people from deprived areas by providing equipment (computers and smartphones) at a reduced cost and free coaching on essential digital skills.

Looking ahead, the Group aims to continue to deliver impactful initiatives in line with its charity programme during 2022 and to continue to work with its charity partners to make a difference to local communities.

People

TMHCC International has approximately 1,100 employees, with 800 in the UK and 300 based across 10 European branches. The employee base has increased as the business continues to grow through acquisition and organic growth.

Values and Vision

Tokio Marine's corporate vision is to be a Good Company that encompasses the values it aims to represent including Collaboration, Look Beyond Profit, Empower Our People and Deliver on Commitments. The Group incorporates this overarching vision into its culture and values.

During 2021, the Group developed a Culture Dashboard, which includes metrics and measures that centre around engagement, wellbeing, inclusion and diversity and leadership. The Dashboard is presented to the Board on a quarterly basis enabling increased insight into the culture groups. The Culture Dashboard will be available to employees via the Group's intranet during 2022.

Developing and Engaging People

The Group continues to implement initiatives that will help retain talent, ensure a high level of employee engagement and build future leaders with the right skills, knowledge, and experience to lead the Group in its future endeavours and growth.

The Group supports its employees' development through career growth opportunities, providing knowledge through experience and through availability of relevant training. TMHCC's corporate programmes, such as Leadership Excellence and Development (LEaD), Elevating Women in Leadership (EWiL) and the introduction of the Foundations of Leadership Programme during 2021 enables talented people to prosper and become the future leaders of the business and ensure achievable succession plans.

Inclusion and Diversity

Inclusion and Diversity (I&D) is important to the Group as it wants to foster an inclusive culture. The Workplace Group forms part of TMHCC International's Sustainability Strategy, which is fundamental to the Good Company Ethos. The Workplace Group identifies areas of development or improvement in relation to I&D, wellbeing and learning and development. The Group has developed strategies for each area with objectives and actions that link to these strategies.

In 2021, the Group supported eight global and national awareness campaigns, including Black History Month and Mental Health Awareness Week. The Insurance Diversity & Inclusion Festival, Dive In, was also promoted and employees were encouraged to attend a range of seminars on I&D topics.

Health and Wellbeing

The health and wellbeing of employees continues to be a high priority due to the continuing challenges of the Covid-19 pandemic.

Alongside 60 wellbeing activities organised for employees during 2021, the Group provided webinar sessions for employees on a range of subjects such as digital wellbeing and resilience, Headspace (a mindfulness app) and the Employee Assistance Programme.

In 2022, the Group's wellbeing activities will centre on providing support and guidance to managers and employees in respect of mental health; and opportunities for employees to connect with each other. The ability to create connections with others is evidenced to positively impact individuals' wellbeing. The Group will also continue to promote events such as Mental Health Week to encourage awareness and to enable discussion on wellbeing matters.

1,100 employees, with 800 in the UK and 300 based across 10 European branches

Business Conduct and Ethics

The Group is committed to carrying out its business activities fairly, honestly, transparently and in accordance with applicable legal and regulatory requirements, with a view to engendering stakeholder trust. This approach is embedded in the Group's business and governance framework and through operation of its three lines of defence, with application of appropriate policies, procedures and, compliance monitoring.

TMHCC's Code of Business Conduct and Ethics, together with the Group's Employee Handbook, set out how it operates and includes reference to specific policies including: Whistleblowing; Anti-Bribery; Conflicts of Interest; and the Treating Customers Fairly (TCF) Statement. All new employees are provided with e-training modules that cover ethics, anti-bribery, data protection, modern slavery and whistleblowing.

Conduct

At the core of the Group's approach to responsible business is ensuring that all policyholders receive fair treatment throughout the product life cycle and no detriment is caused to the Group, its customers, clients, or counterparties because of the inappropriate execution of its business activities. This ethos is communicated through the governance structure from the Board to all employees, with a specific committee responsible for oversight of conduct, product governance and distribution throughout the business. Conduct Risk e-training is also provided to employees working in underwriting, claims, compliance, internal audit, marketing, and risk departments, and to Executive and Non-Executive Directors.

Throughout 2021, the Group continued to ensure the following activities were undertaken: reviews of all new products; customer advocate reviews of wordings; comprehensive due diligence on all third parties prior to engagement and audits undertaken thereafter; allocation of product risk ratings and continual monitoring of the highest rated products using detailed management information to ensure fair consumer outcomes; and compliance monitoring on licensing, sanctions and financial crime practices. During 2021, the Group continued to monitor the performance of its products to ensure they performed fairly and as intended.

Complaints

The Group is dedicated to ensuring policyholders and claimants receive a high-quality service. It aims to ensure that complaints are handled fairly, effectively, and promptly and are resolved at the earliest opportunity, minimising the number of unresolved complaints that may need to be escalated.

There are effective and transparent procedures in place concerning the handling of complaints ensuring the proper investigation and appropriate resolution of complaints. The Group's complaint handling is supported by use of a purpose-built complaints management software application to further facilitate the efficient handling of complaints. The complaint handling procedure outlines the process for the handling of complaints to ensure they are identified and handled in accordance with regulatory expectations.

The Group monitors complaints received on all lines of business using detailed management information to ensure fair customer outcomes. Among a number of indicators, the management information monitors volume of complaints, complaint outcomes and any findings arising from referrals to the Financial Ombudsman Service in the UK and equivalent External Dispute Resolution schemes available to policyholders located in territories outside of the UK in the event that a complainant disagrees with a decision taken by the Group in respect of a complaint. These complaint metrics are reported as part of the Non-Financial KPIs – see page 34.

Licensing

The Group's policy is to seek licensing or registration as an approved (re)insurer where it may not legitimately accept risks on a non-admitted (unlicensed) basis. The International Compliance Department undertakes a monthly review to ensure adherence to licensing requirements, and the results of these reviews are provided as part of the Non-Financial KPIs – see page 34.

Anti-Bribery and Corruption

The Group has zero tolerance of bribery or corruption. The Anti-Bribery Policy details definitions of corruption and bribery as well as how to report any cases of suspected wrongdoing.

The Group's Gifts and Entertainment Procedure also supports the Anti-Bribery Policy and provides guidance to employees on the giving, receiving, and recording of business gifts and hospitality. In addition, the Conflicts of Interest Policy provides employees with guidance regarding assessing, managing and recording conflicts of interest. Employees and Board members are also required to complete an annual declaration regarding conflicts of interest.

All business that would expose the Group to any parties domiciled in countries that exhibit a high corruption risk (countries with a score of 20% or less on the Transparency International Corruption Perceptions Index (CPI)) require approval from a member of the Executive team prior to inception and the receipt of approval is monitored by the International Compliance Department.

Money Laundering and Financial Crime

Any business that would expose the Group to parties domiciled in countries exhibiting a high money-laundering risk (a risk score of 7.5 or more (out of 10) on the Basel AML Index and countries that are watch-listed by the Financial Action Task Force) requires executive approval prior to inception and the receipt of this approval is monitored by the International Compliance Department.

The Group has an additional anti-money-laundering control in place to ensure that policy acquisitions and cancellations have not been used as a means of laundering the proceeds of crime. This extra control is performed by the International Compliance Department bi-annually. It involves analysis of all returned premiums up to two months after policy inception that are above a certain, line-specific percentage of original premiums. To obtain similar confidence that claims have not been engineered for money laundering, all claims made within seven days of policy inception are similarly analysed by the International Compliance Department.

In addition to the standard controls in place, the International Compliance Department undertook a major internal Financial Crime Risk Assessment covering the following areas: bribery, corruption, money laundering, financial crime, sanctions and whistleblowing. A follow-up to this Financial Crime Risk Assessment was again undertaken in 2021.

From a governance perspective, it should be noted that the Money Laundering Reporting Officer provided bi-annual reports to the Board, while formal updates on financial crime were also provided to multiple Board committees, including the Executive Underwriting Monitoring Committee and Risk & Capital Management Committee.

The results of the Group's money-laundering controls are set out as part of the Non-Financial KPIs – see page 34.

Sanctions

The Group is subject to UK and European sanctions and Office of Foreign Assets Control (OFAC) -administered US sanctions in territories where it is deemed to be a US Person (Iran, Cuba and Syria). To ensure the Group avoids writing business with exposure or potential exposure to sanctions targets, the International Compliance Department ensures all relevant employees within the business have sanctions awareness. This is achieved through the provision of e-training and ad hoc updates.

The Group also runs real-time and batch-screening that is designed to identify possible matches between potential insureds or claimants and listed sanctions targets. The results of these tests are reported as part of the Non-Financial KPIs – see page 34.

Procurement, Outsourcing and Working with Third Parties

The Group's responsible approach to business extends to procurement, outsourcing and third parties. It is committed to preventing slavery and human trafficking in its corporate activities and ensuring that its supply chains and third-party relationships are free from slavery and human trafficking.

The Outsourcing and Contract Management Policy, Delegated Authority Procedures and Intermediary Vetting Procedures set out what due diligence is required and the monitoring processes (including regular audits) that will be undertaken of third parties. Transparency in the supply chain in relation to modern slavery and trafficking is reviewed at the due diligence stage. The Group's Modern Slavery Statement can be found on its website.

Whistleblowing

HCCII's Whistleblowing Policy follows accepted best practice and regulatory requirements, has been specifically emphasised in communications by the Executive and is centrally accessible to employees via the intranet. It outlines the procedures and processes for when and how to speak up about wrongdoing within the organisation. An individual can raise a concern internally or externally (for example in the UK via the PRA or the FCA) or via an externally provided confidential hotline. The Non-Executive Chairman of HCCII's Audit Committee has been appointed as Whistleblowing Champion and reports have been provided to the Group's Audit Committee on the whistleblowing arrangements. HCCII's Whistleblowing Policy was reviewed in 2021 with no material changes required.

The Compliance category within the TMHCC International 2021 Culture and Values Survey continued to score highly, reflecting a workforce that are fully engaged, understand the Group's approach to whistleblowing, and feel confident in their ability to speak up. No whistleblowing concerns were reported through the internal or external channels during 2021.

Data Protection

During 2021, the Group continued to refine the Data Protection Framework. The existing framework documentation was reviewed and amended as required to ensure it could be applied across the Group, and additional documents were created as necessary (for example, a Transfer Impact Assessment (TIA) template has been designed and is now in use). The Data Protection Impact Assessment (DPIA) process has been further embedded within the Group, with all new projects continuing to be subject to scrutiny with DPIAs completed.

There is a dedicated Data Protection Department in the UK with increased resource to provide requisite support to the Group. The team continues to work to improve its General Data Protection Regulation (GDPR) processes, particularly in respect of TME, working closely with the TME Data Protection Officer and assisting the embedding of GDPR compliance in Europe. This team has moved from a GDPR-centric approach to one with a worldwide focus, identifying and assessing the impact of impending privacy changes on the Group and locations in which it underwrites business.

An effective, operational Data Protection Committee governance structure is in place. Investment in software solutions to more efficiently manage the challenges arising from the increasingly diverse and impactful privacy legislation is also evidence of the importance being given by the Group to the subjects of privacy and data protection.

Climate Risk

In Q4 2019, the Group established a Climate Risk Committee as part of its sustainability governance structure (illustrated on page 25) to oversee the identification, measurement and monitoring of its physical, transitional and liability risks and opportunities from climate change and to make recommendations to the Group's Board in respect of its Climate Risk Strategy.

Governance

The Board has overall responsibility for the Group's strategy, and oversight of the Group's performance against its strategy and for its risk management framework. The Board is responsible for setting the risk strategy and appetite, for overseeing risk management (including the Enterprise Risk Management (ERM) framework), and for approval of the Group's risk policies and procedures, which cover all aspects of risk, identification, appetite, measurement, mitigation, monitoring, reporting and governance.

During 2021, the Board received externally facilitated training on climate change risk, covering issues including: climate risk identification; assessment and measurement; challenges and opportunities from transition risk; and ongoing educational opportunities.

Climate-related risks form part of the roles and responsibilities of executive and senior management across several key functions, including Enterprise Risk, Finance and Underwriting. Simon Button, Chief Underwriting Officer – London Market, is the appointed Senior Management Function (SMF) holder in respect of financial risks from climate change, chairs the Sustainability and Climate Risk Committees, and is responsible for ensuring Board and Executive oversight of sustainability issues, which include financial risk from climate change. The Group has established a regular cycle of reporting on climate risk to the Sustainability Committee and Board. Beyond the Board, Sustainability and Climate Risk Committees, climate-related issues are considered by the Investment Committee, Risk and Capital Management Committee, through the ERM framework and at a line of business level.

The Climate Risk Committee continues to develop the Group's Climate Risk Strategy, which will respond to climate-related risks and opportunities and will form part of the Group's Sustainability Strategy that covers the wider ESG areas covered by the Group's sustainability governance structure (set out on page 25).

Risk Management

The Group has a robust ERM framework (detailed on page 46), which is embedded throughout the organisation, ensuring the right processes and procedures are in place to identify, monitor and mitigate the risks associated with the business and its operations.

Climate-related risk was initially identified as part of the Group's emerging risk discussions. However, as the profile of this risk has continued to increase significantly, the Group decided to make Sustainability Risk (the strategic and operational risks of addressing ESG concerns, including climate change) a standalone risk while it continues to develop rather than cover it within the six principal risk categories. This affords transparency over the management of the risk.

During 2021, the Group formally articulated how it assesses climate risk within its risk framework through the development of a climate risk sub-risk register that ensures physical, transitional and liability risks related to climate change and their potential impacts are measured and monitored across a range of time horizons. The Group also considers emerging trends relating to climate change as part of its quarterly emerging and, developing risk process. In addition, the Group has provided further input into the future strategic direction related to the underwriting of renewable energy and the support provided to existing lines of business related to transition activities; developed additional stress testing and scenario analysis; and identified how the information, required to be disclosed under the new requirements, will be sourced. The progress made to date leads the Group to expect the requirements in the various areas described to be embedded in accordance with regulatory requirements and best practice.

Strategy

The Group is cognisant of the importance of climate-related risks to its business, clients, and other stakeholders. As a result, the Group considers climate-related risks and opportunities in its business decisions including underwriting and exposure management, particularly in relation to physical risks, and in its investment analysis; ERM risk framework, policies, and processes; and strategic acquisitions, specifically the decision to acquire GCube in 2020.

The Group is developing its Climate Risk Strategy, which will align with its business strategy and will continue to integrate consideration of climate-related risks and opportunities into its business and operations in the coming years. The Group commenced a climate risk project in Q1 2021 to identify and map potential climate-related risks and their potential impact on its business. The outputs of the project will further inform the Group's Climate Risk and business strategies, as well as the development of the Group's risk management and scenario analysis approach related to climate risk, and the establishment of climate risk metrics.

Physical Risk

The Group has exposure to physical risks due to its exposure to natural catastrophe events such as windstorm, flood, and earthquake. The lines of business that are exposed to these natural catastrophe events are those principally within the London Market underwriting segment (detailed on page 18) and the underwriters have a well-developed understanding of physical risks from climate change.

Physical risk is well managed through the Group's strategy of writing 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. Annual policies enable the Group to respond to changing weather patterns, and its comprehensive reinsurance programme provides protection against losses from severe weather events aligned to the Group's risk appetites and tolerances.

The Catastrophe Exposure Management (CEM) team supports the underwriting and assessment of risks by monitoring catastrophe exposures through geocoding location reporting for all risks and use of weather peril models. In 2021, the CEM team worked to further refine its climate risk scenarios.

Supporting Low Carbon Transition

The Group recognises that climate risk is evolving rapidly. Conscious of this, it has been a frontrunner in the provision of insurance capacity to the renewable power industry for a number of years, underwriting renewable energy projects including wind, solar, bio, hydro, wave and tidal. The Group's strategic acquisition of GCube in 2020 enables the development of its involvement in one of the most vibrant and evolving sectors of the energy market, while allowing it to actively address the issues around sustainability, helping us work towards a safe, secure and sustainable future.

In addition, the Group is actively working with and supportive of its clients primarily within the Marine and Energy sectors who are working towards a low carbon transition.

Task Force on Climate-Related Financial Disclosures

During 2021, and in line with the PRA's expectations set out in Supervisory Statement (SS3/19) Enhancing Banks' and Insurers' Approaches to Managing Financial Risks from Climate Change the Group continued its alignment with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and will continue to develop these during 2022 and beyond.

During 2021, the Group reported for the second time (in respect of the financial year ended 31 December 2020) against the ClimateWise principles, which are closely aligned to the TCFD recommendations. The Group achieved a 20% increase in its ClimateWise score for the financial year ended 31 December 2020, compared with its prior year reporting.

Streamlined Energy and Carbon Reporting

As part of its sustainability approach, the Group has taken steps to explore the growing impact of climate change and to mitigate its impact on the environment. As an insurance company, the Group's environmental footprint mainly stems from its office operations and business travel. The Group continues to work to minimise its footprint, transferring to renewable energy sources at a number of its UK offices and actively working on a Carbon Management Plan as part of its Sustainability Strategy. In addition, the Group continues to raise awareness of environmental initiatives through its sustainability governance structure, which is aligned with the Group's Good Company approach.

In line with the UK government's Streamlined Energy & Carbon Reporting (SECR) framework, the table opposite shows the Group's UK operational energy and carbon footprint for the financial year ended 31 December 2021 and the comparative data for the financial year ended 31 December 2020.

	2021	2020
Energy consumption used to calculate emissions	kWh 967,724	kWh 1,667,924
Emissions from consumption of gas tonnes of carbon dioxide equivalent (tCO_2e) (Scope 1)	45	48
Emissions from consumption of transport fuel (tCO_2e) (Scope 1)	19	151
Emissions from consumption of purchased electricity tCO_2e (Scope 2 location-based)	136	175
Total gross CO_2e	200	374
***Intensity ratio: tCO_2e/$m**	0.17	0.45

**Intensity ratio is comprised of all emissions associated with the Group's operating activities in the UK, divided by GWP.*

The above data has been calculated for UK locations in accordance with the Greenhouse Gas (GHG) Protocol and Environmental Reporting Guidelines, including SECR guidance.

NON-FINANCIAL KEY PERFORMANCE INDICATORS (KPIS)

Non-financial KPIs	Description	2021 result
Sanctions	Sanctions matches (UK, European and OFAC-administered US sanctions in territories where the Group is deemed to be a US Person).	No submissions were declined due to exposure to specific named sanctions targets, nor were any policies cancelled (2020: 0). No claims were received that would have exposed the Group to the risk of infringing any sanctions (2020: 0).
Licensing	Policies written in line with licensing restrictions/permissions.	44 risks were re-stamped with all changes made as necessary by endorsement (2020: 11).
Bribery and corruption	Executive approval pre-inception for risks where a party is domiciled in countries with a score of <20% on the CPI Index.	Approval was not sought post inception during 2021 (2020: 0).
Money laundering	Executive approval required pre-inception for risks where a party is domiciled in countries with a score of >7.5 on the Basel AML Index. Return Premiums >15% of the gross premium and >£10,000 (or £1,000 for PI) up to two months after inception; and any claims made within seven days of policy inception.	Approval was sought (post-inception) on 13 occasions in 2021 either due to country score exceeding 7.5 on the Basel AML Index score or certain territories listed by the Financial Action Task Force (FATF) (2020: 1).
Volume of complaints	Total number of complaints received.	135 (2020: 31) The increase in volume of complaints is driven by a change in the portfolio mix.
Complaint outcomes	The number of complaints received that have been upheld, that is, where the policyholder's complaint is found to be justified. The number excludes complaints where the Group does not accept any wrongdoing but has made an ex-gratia payment to the insured.	9 (2020: 6)
Financial Ombudsman Services (FOS) outcomes	Percentage of complaints that have been upheld by the FOS following referral of complaint by an eligible policyholder who disagrees with the Group's final decision.	0.74% (2020: 0%)
Voluntary employee turnover metric	The number of permanent non-fixed-term contract employees of the HCC Service Company, Inc. (UK branch) and TME, who have voluntarily left over the last 12 months, divided by the average number of permanent non-fixed-term contract employees over the last 12 months.	10.7% at 31 December 2021 (2020: 8.5%). The voluntary employee turnover metric was tracking Green until Q4 2021 when it moved into Amber. The uptick in turnover was anticipated given the low turnover experienced during the pandemic. The market as a whole is experiencing this given the buoyant market for candidates. The Group will continue to monitor turnover and the reasons driving it and will take steps to address any identifiable trends.

NON-FINANCIAL INFORMATION STATEMENT

The non-financial information provided in this Strategic Report summarises the material issues the Group has identified in line with the new requirements, alongside information around risks, action taken, due diligence and performance for these topics. Specifically, the Group's response to its material, social impacts, employee issues, respect for human rights, anti-corruption and anti-bribery is outlined.

Reporting requirement	Policies and standards that govern our approach	Risk management and additional information
Environmental matters	• Corporate Social Responsibility (CSR) Strategy	Principal Risks and Uncertainties pages 36–39 Stakeholder Engagement pages 13–17
Employees[2]	• Code of Business Conduct and Ethics[3] • Employee Handbook[2] • Health and Safety Policy[2] • Diversity and Equal Opportunity Policy[2].	People page 28 Stakeholder Engagement pages 13–17
Human rights	• Modern Slavery Statement; • Data Protection Policy[2].	Business conduct and ethics pages 29–30 Stakeholder engagement pages 13–17
Social and community	• Voluntary Work Policy[2] • Charity Strategy.	Charity and community pages 26–27 Stakeholder engagement pages 13–17
Anti-corruption and anti-bribery	• Financial Crime Manual[2] • Anti-Bribery and Corruption Policy[2] • Anti-Money Laundering Policy[2] • Gifts and Entertainments Policy[2] • Whistleblowing Policy[2].	Business conduct and ethics pages 29–30 Principal risks and uncertainties pages 36–39
Policy embedding, due diligence and outcomes	Principal Risks and Uncertainties pages 36–39	
Description of principal risks and impact of business activity	Principal Risks and Uncertainties pages 36–39 Business Model pages 8–11 and Stakeholder Engagement pages 13–17	
Description of the business model	Business Model pages 8–11	
Non-financial KPIs	Non-Financial KPIs page 33	

[2] Employees are employed by HCC Service Company, Inc. (UK branch) and TME but undertake activities on behalf of the Group, therefore all disclosures provided in respect of employees should be read accordingly.

[3] Internal policies are not published externally and form part of the governance framework.

PRINCIPAL RISKS AND UNCERTAINTIES

The Group has identified the principal risks arising from its activities and the Board has established appetites covering the amount and type of risk the Group is prepared to seek, accept, or tolerate. These appetites are embedded in the policies, procedures and mitigation frameworks that are in place to manage these risks. The Group maintains a risk register and categorises its risks into six areas: Insurance; Strategic, Regulatory and Group; Market; Operational; Credit; and Liquidity. These risk areas are discussed below, along with the actions taken by the Group to manage and mitigate them. Further detail regarding these risks is provided in Note 6.

Areas of Risk

Risk	Description	Mitigating actions/factors
Insurance	• The four key components of insurance risk are: premium or future underwriting risk (including delegated authorities); reinsurance purchasing; claims management; and reserving. • 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.	• An underwriting strategy that seeks a diverse and balanced portfolio of risks. • A reserving policy to produce accurate and reliable estimates that are consistent over time and across classes of business. • Setting and regularly monitoring risk appetites. • Individual authority limits for all employees authorised to underwrite, and business plans for each line of business. • Claims teams focused on delivering quality, reliability, and timely service to both internal and external clients. • Using reinsurance to protect the Group's balance sheet keep within the set risk appetites. The foundation of the reinsurance strategy is to purchase reinsurance when gross limit profiles exceed our net risk tolerances for net individual risks and accumulation of risk losses from one individual event. • Monitoring exposures using modelling tools.
Strategic, regulatory and Group	Risks that arise from: • the Group's strategy being inappropriate or the Group being unable to implement its strategy; • the Group not complying with regulatory and legal requirements; • the Group failing to consider the impact of its activities on other parts of the TMHCC Group and vice versa.	• Setting and regularly monitoring risk appetites. • A management structure that encourages organisational flexibility and adaptability, while ensuring that activities are appropriately coordinated and controlled. • Operating across the TMHCC Group with clear and open lines of communication to ensure all TMHCC Group entities are well informed and working towards common goals.
Market	• Market risk arises where the value of assets and liabilities or future cash flows change because of fluctuations in economic variables, such as movements in foreign exchange rates, interest rates and market prices.	• The Investment Committee has an objective to ensure funds are invested in accordance with the 'prudent person principle', whereby assets: i) are of appropriate security, quality and liquidity; ii) are adequately diversified and are localised; and iii) broadly match the liabilities. • Adhering to an investment risk appetite that forms part of the Group's overall risk appetites. • Setting and regularly monitoring risk appetites. • Independent investment experts assist with the implementation of the investment strategy and monitoring of the economic environment and investment performance.
Operational	• 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.	• Performing business activities in a fair, honest and transparent manner that complies fully with applicable UK and international legal and regulatory requirements, and internal policies and procedures. • Setting and regularly monitoring risk appetites. • Scenario testing and modelling operational risk exposure. • Management review of operational activities, including IT and IT security. • Documented policies and procedures. • Ensuring key processes include preventative, directive and detective controls. • Business continuity and contingency planning. • Established and embedded systems controls.
Credit	• 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 from reinsurers; brokers and coverholders; investments; and financial institutions holding cash.	• Setting and regularly monitoring risk appetites. • Limiting exposure to a single counterparty or a group of counterparties. • Established guidelines and approval procedures for counterparties.
Liquidity	• 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 most cases, these claims are settled from premiums received.	• Liquidity management: - using cash flow forecasting to ensure that surplus funds are invested to achieve a higher rate of return; - so that the Group can reasonably survive a significant individual or market loss event.

Given the nature of the Group's business, the largest risks fall under the category of Insurance risk, specifically Reserving risk, reflecting the significant long-tail reserves held by the Group and unexpected losses, either catastrophe or systemic, that fall outside business plan parameters. These risks are closely monitored and robustly managed.

Developing and Emerging Risks

In addition to monitoring the Group's existing and established principal risks, the risk management framework is designed to support the identification of developing and emerging risks; those risks that have the potential to impact, or require a review of, the existing strategic objectives.

Risks that are likely to crystallise more imminently are also monitored.

The following risks have developed to the extent that their impact on future strategic objectives must be addressed and mitigated:

Sustainability Risk

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

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

One of the Sustainability Committee's key areas of responsibility relates to climate change risk, which is discussed in the Climate Risk section on pages 31-33.

Post-Brexit Risks

The EU UK Trade and Cooperation Agreement, which came into effect from 1 January 2021, does not cover financial services access to EU markets. This remains to be determined by a separate process under which the bloc will either unilaterally grant 'equivalence' to the UK and its regulated companies or require firms to seek permissions from individual member states.

The UK is still waiting to learn what market access rights UK financial services companies will have in future, with the EU warning that they will hinge on how far Britain diverges from EU standards. The UK and EU resumed talks in early 2021 aimed at drafting a memorandum of understanding (MoU) on future co-operation on financial services policy but, at present, the MoU remains unsigned.

Despite certain areas of uncertainty, the Group has undertaken significant activity to ensure that its companies and employees operate compliantly in the post-Brexit regime. This includes keeping in close contact with both the market and UK and European regulators, including the CAA, to ensure that any issues are identified early and appropriate action is taken.

Operational Resilience

Operational resilience relates to the ability of an insurer to absorb shocks and maintain smooth business services during adverse conditions and is an area of regulatory focus, with both the PRA and FCA articulating their expectations in this regard. Operational resilience has been, to a certain extent, embedded within the Group's existing Business Continuity Planning and Operational Risk analysis processes and has proven to be effective during the Covid-19 pandemic. Little to no downtime was experienced when the Group was forced to work remotely and exceptional levels of service continued to be maintained for clients.

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

Inflation Risk

Inflation risk, particularly social inflation, has become a hot topic in the industry, where concerns have arisen over supply chains, transport costs and recruitment/retention as the world moves on from the Covid-19 pandemic.

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

Outsourcing & Supplier Management

As the organisation grows, reliance on outsourcing and supplier management also increases. This is through the ever-greater use of cloud service providers to ensure system/data back-up capabilities, or the increased use of coverholders, arising from new lines of business such as Delegated Property and Marine Cargo and the growth in existing lines.

The use of third parties brings additional risks, and strong risk governance in this area is vital to ensure uninterrupted service to both external and internal stakeholders. While the residual rating of this risk is low, in light of the increased dependencies on third parties, the Group continues to review its control framework in this area, to ensure it remains comprehensive and robust to appropriately mitigate the increased reliance.

Ukraine conflict

The Board continues to monitor the evolving military conflict in Ukraine, which commenced in February 2022, and the associated Russian and Belarusian exposures. The impact on the Group is currently considered to be limited with only a few classes of business that have direct exposure. The indirect exposures are limited by the Group's cautious investment strategy and robust operational frameworks. The impact of the conflict on future business is also expected to be limited. Management will continue to actively monitor the situation and to assist the Group's policyholders.

Covid-19 Risk

Since March 2020, the Group has been monitoring and addressing the potential financial and operational risks created by the global Covid-19 pandemic.

What was indicated at a very early stage and has been borne out in practice is that Covid-19 has not had a material impact on the Group. The Covid-19 pandemic is considered an earnings event rather than a capital event for the Group, with neither the capital requirements nor the capital held currently materially impacted. This was due to:

- the strong solvency regulatory capital position;
- the diversified book of business;
- limited direct losses across the Group, seen in the context of overall budgeted net profit after tax;
- strong liquidity position and cautious allocation of investment portfolio;
- good reinsurance security with longstanding reinsurers;
- robust initial reserves set up for Covid-19 claims, with very little movement in gross or net ultimates seen during 2021.

The level of uncertainty relating to Covid-19 receded during 2021. It is noted that, beyond the advent of future threatening mutations of the virus, one of the remaining areas of uncertainty arising indirectly from Covid-19 relates to potential future volatility in the world financial markets, as governments around the world continue to withdraw their national structural support. This could impact various lines of business, such as Financial Lines, and the Group's investment portfolio.

Partially as a result of the Covid-19 pandemic, the Group introduced a new dynamic working policy in September 2021, when staff transitioned back to the office. This policy provides employees with increased flexibility in how they work. The Group is cognisant that the return to the office and the new dynamic working policy bring several potential risks, including:

- ensuring staff are appropriately operating in the office environment, including adhering to all local authority guidelines and maintaining staff safety and welfare;
- ensuring that within the new working model there is robust training, appropriate mechanisms to provide ongoing professional development of staff, the correct technology in place to support productivity (whether working remotely or in the office) and minimising any disadvantages that might transpire if certain demographic groups need to work remotely with more regularity than others.

The Group's initial assessment of the transition back to the office is that it has been a success. However, it is recognised that the return is still in its infancy and therefore the potential risks will continue to be monitored during 2022.

Board of Directors

At the year ended 31 December 2021, the HCCII Board comprised: the Chairman; Chief Executive; Group Chief Financial Officer; Chief Underwriting Officers (London Market and International Specialty); Chief Risk Officer; two Independent Non-Executive Directors; and the Chief People Officer and Managing Director – J Business, who joined the Board in Q1 2021. The Board's primary responsibility is to promote the long-term success of HCCII by creating and delivering sustainable value. The Board seeks to achieve this by delivering its strategic objectives while ensuring that its values and culture align with that purpose.

Nick Marsh
Chairman

Nick has been Chairman since 2013, joining the Board of HCCII after a 40-year career with Atrium Underwriting Group. In addition to his role as Chairman of the Board, Nick is Chair of the Remuneration and Nomination Committees and a member of the Audit and Investment Committees. He is also an Independent Non-Executive Director and Chairman of HCCUA.

Nick held various roles during his career with Atrium Underwriting Group, including Chairman of Atrium Underwriters Limited; Chief Executive of Atrium Underwriting plc; and Director of Corporate Underwriting at Atrium Group Limited. He was also formerly a Director of the Lloyd's Market Association, a member of the Council of Lloyd's and a trustee of the Lloyd's Benevolent Fund.

Barry Cook
Chief Executive Officer

Barry was appointed to the role of Chief Executive and to the Board in 2005. He has 40 years of experience working in the London, Lloyd's, and international insurance markets. Prior to his appointment, Barry was Chief Executive of the Lloyd's broker Rattner Mackenzie for 14 years, which was acquired by the TMHCC Group in 1999.

Barry is Chairman of the Executive Underwriting and Monitoring Committees (EUMCs) (London Market; Credit & Surety; and Professional Risks, Financial Lines, Contingency & Disability) and a member of the Risk and Capital Management, Investment, Nomination and Remuneration Committees.

Barry is an Executive Vice President of HCC Insurance Holdings, Inc.; Global Reinsurance Advisor to Tokio Marine Holdings, Inc; a Director of Tokio Marine GRV Re, Inc., Tokio Marine HCC Insurance Holdings (International) Limited, HCCUA, GCube, RELA and Nameco (No.808) Limited; a Non-Executive Director of TME and Tokio Marine Kiln Group Limited; and an Independent Non-Executive Director of Intrepid Insurance Brokers Limited.

Simon Button
Chief Underwriting Officer – London Market

Simon joined the Group in 2000 as an Energy Underwriter and was appointed to the Board as Chief Underwriting Officer – London Market in 2013. He has over 30 years' experience in the Lloyd's London and International insurance markets.

Simon is Chairman of the Sustainability Committee and a member of the Investment, EUMC – London Market and Risk and Capital Management Committees. Simon is also the Active Underwriter of HCC Syndicate 4141 and a Director of HCCUA, GCube and RELA.

Thibaud Hervy
Chief Underwriting Officer – Specialty Lines

Thibaud joined the TMHCC Group in 1999 as a Financial Lines underwriter and was appointed to the HCCII Board in 2011. He was made Chief Underwriting Officer – Specialty Lines in 2014. Prior to that, he was Managing Director of HCCG, the TMHCC Group's Spanish underwriting agency, for 14 years.

Thibaud is a member of the EUMCs (Credit & Surety and Professional Risks, Financial Lines, Contingency & Disability), Sustainability and Risk and Capital Management Committees.

Thibaud is also a Director of TME, and a Director of HCCUA, QHL, QBuS and HCC Diversificación y Soluciones S.L.

Katherine Letsinger
Group Chief Financial Officer

Katherine joined the Group and the HCCII Board as Group Chief Financial Officer (CFO) in 2012. She is a Certified Public Accountant, qualifying with Pricewaterhouse Coopers LLP (PwC) in the US. Katherine has over 35 years of experience in the insurance industry, gained through various roles including Insurance Services Partner at PwC, and senior CFO roles at Wellington Underwriting plc (FTSE 250) and General Re, Ltd. She has previously held several Non-Executive Directorships, including chairing an Audit Committee.

Katherine is Chair of the Investment Committee and a member of the EUMCs (London Market; Credit & Surety; and Professional Risks, Financial Lines, Contingency & Disability), Sustainability, Remuneration and Risk and Capital Management Committees. She is a Director of HCCUA, QHL, QBuS and HCC Diversificación y Soluciones S.L., Credit Services, GCube, RELA and Nameco (No.808) Limited. Katherine is also a Non-Executive Director of TME.

Graham White
Chief Risk Officer

Graham joined the Group in February 2016 as Chief Actuary and was appointed to the Board in 2017 as Chief Actuary and Chief Risk Officer. Following the appointment of a Chief Actuary in September 2020, Graham is Chief Risk Officer for HCCII and TME. He is a Fellow of the Institute of Actuaries and has over 30 years' experience in the Lloyd's London and International insurance markets. Prior to joining the Group, Graham was Chief Actuary and Director of a Lloyd's syndicate for 10 years.

Graham is a member of the Risk and Capital Management, Investment, Group Data Protection and Sustainability Committees. He is also a Director of HCCUA.

Angela Baker
Chief People Officer

Angela joined the group in 2004 and has held the roles of HR manager and Head of UK HR. Angela has over 25 years' experience with over 15 years spent in the insurance industry. In Q3 2020, Angela was appointed as Chief People Officer. She joined the Board in January 2021. Angela is a member of the Remuneration, Group Data Protection and Sustainability Committees and is a Director of HCCUA.

Hideki Mishima
Managing Director – J Business

Hideki was appointed to the Board in February 2021. He joined Tokio Marine in 1987. His 30 plus year career with Tokio Marine has included roles within underwriting and senior management in Japan and internationally. Hideki chairs the EUMC – J Business and is a Director of HCCUA and TME.

Hans-Dieter Rohlf
Independent Non-Executive Director

Hans joined the Board in 2013 as an Independent Non-Executive Director and Senior Independent Director. He is a member of the Audit, Risk and Capital Management and Nomination Committees.

Hans' career includes over 30 years at Hannover Re in a number of roles, including Senior Vice President and Head of US & Aviation Business and Head of Retrocessional Department. In 1995, he was appointed Managing Director of North American Property & Casualty Business and joined the boards of Hannover Re's North American Underwriting and Service companies.

From 2013 to 2015, he was an Independent Non-Executive Director on the TMHCC Board. Hans is also an Independent Non-Executive Director of HCCUA and Tokio Marine Kiln Syndicates Ltd.

Craig Scarr
Independent Non-Executive Director

Craig was appointed to the Board in 2015 as an Independent Non-Executive Director. He is Chair of the Audit and Risk and Capital Management Committees and a member of the Nomination and Sustainability Committees.

He is a Chartered Accountant, and prior to his appointment, he spent over 20 years at Mazars LLP in various roles, including International Head of Governance, Risk, and Internal Controls, and Head of UK Insurance. He was also Chairman of UK Insurance at Grant Thornton LLP.

During his career, Craig was appointed a Skilled Person for regulated entities for the FCA and PRA, undertaking reviews covering corporate governance, risk and control frameworks, conduct and suitability of advice, and financial crime.

Outside the Group, Craig holds several Independent Non-Executive Directorships at: HCCUA, HSB Engineering Insurance Ltd, USAA Ltd and USD S.A.

Board Members and Attendance

There were six scheduled Board meetings held during 2021. The following table shows each Director's attendance at meetings of the Board during the financial year. The Chairman meets privately with the Independent Non-Executive Directors before each scheduled Board meeting.

Member	Eligible to Attend in 2021	Attended
Chairman		
Nick Marsh	6	6
Executive Directors		
Angela Baker	6	5
Simon Button	6	6
Barry Cook	6	6
Thibaud Hervy	6	6
Katherine Letsinger	6	6
Hideki Mishima	6	6
Graham White	6	6
Non-Executive Directors		
Kiichiro Hatakeyama*	1	1
Independent Non-Executive Directors		
Hans-Dieter Rohlf	6	6
Craig Scarr	6	6

*Resigned 31 March 2021

Board's Activities in 2021

The Board operates a forward agenda of standing items appropriate to the Group's business and reporting cycles. Those items requiring Board approval are clearly identified and other items are for monitoring or reviewing the Group's progress against its strategic plan, budget, risk and capital management and the adequacy of internal controls.

Strategy/business performance

- Received updates on the Group's 2021 Outwards Reinsurance Programme.
- Frequently considered the impact of Covid-19 on the Group's business and operations, including return to office and Dynamic Working policy.
- Monitored and assessed the Group's culture through the Culture Dashboard.
- Received detailed reports on the Group's business and financial performance and considered performance against budget.
- Frequently considered the insurance market environment and rates, including the impact of market losses, new and existing markets, regulatory changes, and the resulting impact on the industry as a whole.
- Received reports and updates in respect of sustainability, including financial risk from climate change.
- Considered and approved strategic initiatives proposed by management.
- Received updates on progress against strategic initiatives.
- Frequently considered the evolving economic, political, regulatory and market conditions relative to Brexit.
- Received updates on TME's operations and performance.
- Approved the 2022-2024 budget.
- Approved Workplace Strategies.
- Approved the Dividend Policy.

Risk and capital

- Conducted quarterly reviews of the Group's risk profile and risk register, covering key internal, external and emerging risks.
- Received updates on changes to the risk and control environments from the Covid-19 pandemic, remote working and return to office.
- Received quarterly updates on the Group's strategic risk metrics and conducted an annual review of the risk appetites and metrics.
- Regularly reviewed key risks, together with the adequacy of mitigation controls.
- Received updates on the PRA's Operational Resilience requirements and the associated project and approved the Important Business Services.
- Formal review and approval of Own Risk and Solvency Assessment (ORSA) and Validation Reports.
- Approved the Capital for the Group.
- Considered the adequacy of capital to support the 2022-2024 budget.
- Reviewed the Standard Formula versus Internal Model results.

Governance

- Received regular reports from the Chairs of the Audit, Risk and Capital Management, Investment, Sustainability, Remuneration and Nomination Committees on activities and recommendations of the Committees.
- Monitored regulatory and legislative developments and considered any potential impacts on the Group's business.
- Considered and discussed all regulatory communication from the PRA and FCA.
- Reviewed and approved the Modern Slavery Statement.
- Received updates on legal, regulatory, and corporate governance matters, including: Terms of Reference; UK corporate governance requirements; Senior Managers & Certification Regime (SM&CR); and also confirmed the responsibilities of the Directors, the Board and the Committees in light of the changes to UK corporate governance and SM&CR requirements.
- Considered and reviewed the composition of the Board and its Committees and the appropriateness of the governance framework.
- Received regular reports from the International Compliance and Data Protection Departments.
- Subsidiary governance – approved increases in capital.
- Conducted an internally facilitated Board Evaluation covering the Board's effectiveness.

Board training

At a number of its meetings, the Board received presentations from selected areas of the business, allowing the Board to review and discuss them in greater depth. These included:

- GCube underwriting
- Operational resilience
- IT Strategy
- Cyber underwriting
- Climate change risks

The Board operates a forward agenda of standing items appropriate to the Group's business and reporting cycles.

Governance Structure

Board

The Board's primary responsibilities are to: set strategic objectives in order to deliver long-term value to shareholders and other stakeholders, monitor management's execution of the strategy, set the risk appetites and risk strategy and ensure there is an effective risk management and internal control system in place.

The Board delegates responsibility for certain areas to eight principal committees

- Nomination Committee
- Audit Committee
- Risk & Capital Management Committee
- Investment Committee
- Remuneration Committee
- Executive Underwriting & Monitoring Committees
- Group Data Protection Committee
- Sustainability Committee

Supporting committee/groups

The Board Committees are supported by a number of sub-committees/groups that have responsibility for key business activities and risks and include: IBNR Committee, Product Governance & Distribution Committee, Operational Risk Group, Cyber Group, Exposure Management Group, Capital Model Oversight Group, Workplace Group, Charity Committee and Climate Risk Committee

Nomination Committee

The Board operates a Nomination Committee to ensure that the Board has the requisite structure, composition and skills that are aligned to the Group's strategic objectives, its continued effectiveness and that the Group has succession plans in place.

The Committee's primary objective, when necessary, is to identify and evaluate candidates for future appointments and, in doing so, will follow its appointments procedure, which includes taking advice from independent external recruitment consultants. In 2021, the Committee was chaired by Nick Marsh and comprised two other Independent Non-Executive Directors (Hans-Dieter Rohlf and Craig Scarr) and Barry Cook (Chief Executive).

Audit Committee

The Audit Committee's primary concerns are: the integrity of the financial statements; the effectiveness of internal financial controls; the performance of internal audit; the performance and independence of the external auditors; and compliance with legal and regulatory requirements.

The Committee has clearly defined terms of reference, which are reviewed annually. These outline the Committee's objectives and responsibilities relating to financial reporting, internal financial controls, and the application of appropriate accounting standards and procedures. Specific responsibilities include: reviewing and recommending for approval the annual financial statements; reviewing the Group's accounting policies; reviewing the effectiveness of internal financial controls; internal audit processes; reviewing the quarterly reserve recommendations from the IBNR (Incurred But Not Reported) Committee and the quarterly actuarial analysis; reviewing the effectiveness of the whistleblowing procedures; and reviewing the scope and results of the external audit.

Craig Scarr, a Chartered Accountant, was appointed Chair of the Committee in 2016. In 2021, the Audit Committee comprised two other Independent Non-Executive Directors (Nick Marsh and Hans-Dieter Rohlf). The Board is satisfied with the recent and relevant financial experience of the Committee Chairman.

Risk and Capital Management Committee

The Group has a Risk and Capital Management Committee that oversees the Group's risk management framework and approach to capital. The main responsibilities of the Committee are: to make recommendations to the Board in respect of its risk strategy, risk appetites and tolerances; to ensure there is an effective and integrated risk management framework in place that allows inherent and emerging risks to be identified, monitored and mitigated in a timely manner (see Principal Risks and Uncertainties on pages 36-39 and Note 5); and to recommend to the Board the regulatory capital requirements.

The Committee is chaired by Craig Scarr (Independent Non-Executive Director). The Committee also comprises Hans-Dieter Rohlf (Independent Non-Executive Director), Barry Cook (Chief Executive), Katherine Letsinger (Group Chief Finance Officer), Graham White (Chief Risk Officer), and Simon Button (Chief Underwriting Officer – London Market), Thibaud Hervy (Chief Underwriting Officer – Specialty) and the functional leaders, including the Group Chief Operations Officer, the Chief Actuary and the Head of International Compliance. The Board remains satisfied that the composition of the Committee strengthens the Group's risk management framework, and that the Committee remains focused on the key risks affecting the Group's financial and operating performance.

Investment Committee

The primary purpose of the Investment Committee is to assist the Board by overseeing the management, understanding and quantification of investment risk. The Committee is responsible for: ensuring that the funds of the Group are invested in accordance with its strategy, policy, and the prudent person principle; monitoring the performance of investments, including the performance of external investment managers; and taking appropriate action where investments cease to comply with the investment guidelines.

Katherine Letsinger (Group Chief Financial Officer) chairs this Committee, and in 2021 its membership comprised Nick Marsh (Independent Non-Executive Director), Barry Cook (Chief Executive), Simon Button (Chief Underwriting Officer – London Market), Graham White (Chief Risk Officer), the TMHCC Group's Chief Financial Officer and the TMHCC Group's Head of Investments.

Remuneration Committee

The Remuneration Committee's primary objective is to oversee the remuneration arrangements for all employees within the Group, ensuring that the framework for remuneration is one that will enhance the Group's resources by attracting, retaining and motivating employees within a framework that is aligned with the Group's risk management framework and long-term strategy. The Group believes that the right remuneration arrangements encourage effective risk management, discourage excessive risk taking and short termism, and support the appropriate conduct culture, while providing a framework to ensure that employees receive a competitive and market-aligned remuneration package that encourages employees to create sustainable results.

In 2021, the Remuneration Committee was chaired by Nick Marsh (an Independent Non-Executive Director). Other members include Barry Cook (Chief Executive), Katherine Letsinger (Group Chief Financial Officer) and Angela Baker (Chief People Officer).

Executive Underwriting & Monitoring Committees (EUMCs) (London Market; Credit, Surety and Political Risk; Professional Risks, Financial Lines, Contingency & Disability and J Business)

The main purpose of the EUMCs is to ensure that the lines of business operate in accordance with the Group's strategic objectives. The key responsibilities of the EUMCs are to: review the line of business performance against budget; consider the rating, market and loss environments and any impacts on the Group's business; monitor the KPIs and risk metrics for each line of business; and review claims and IBNR for each line.

With the exception of EUMC – J Business, all EUMCs are chaired by Barry Cook (Chief Executive). The other Executive Directors in attendance at these meetings include Katherine Letsinger (Group Chief Financial Officer) and the Chief Underwriting Officer for the relevant segment (Simon Button – London Market or Thibaud Hervy – Specialty). Other members include the Head Underwriter/Managing Director for the relevant lines of business and the Head of Underwriting Performance for the relevant segment (London Market or Specialty).

The EUMC J Business was chaired by Hideki Mishima (Managing Director – J Business) and included the Chief Underwriting Officer - Specialty as well as representatives from the J Business segment, claims and finance.

Group Data Protection Committee

The Group Data Protection Committee's purpose is to oversee the TMHCC's data protection framework, monitoring its effectiveness to ensure the risk of regulatory or legal exposure is minimised and TMHCC fosters a sense of trust with its data subjects.

During 2021, the Committee was chaired by the Head of International Compliance and Data Protection Officer. Graham White (Chief Risk Officer) was a member of the Committee along with functional heads from TMHCC and TMHCC International. The main responsibilities of the Committee are the annual production of a Data Protection Plan for the TMHCC, to monitor any data breaches and data subject access requests.

Sustainability Committee

The Sustainability Committee was established to explore the Environment, Social and Governance (ESG) risks, trends, and opportunities that might impact the Group's business, and to develop the Group's Sustainability Strategy. The Committee is chaired by Simon Button (Chief Underwriting Officer – London Market). The composition of the Committee includes the Group Chief Finance Officer, Chief Risk Officer, the Chief Underwriting Officer – Specialty and the Chief People Officer, Craig Scarr (Independent Non-Executive Director), the CEO of TME, and functional heads including the Head of Marketing, the Head of International Compliance and the Company Secretary.

Corporate Governance Statement

For the year ended 31 December 2021, the Group has applied the Wates Corporate Governance Principles for Large Private Companies (published by the Financial Reporting Council (FRC) in December 2018 and available on the FRC website).

Principle 1
Purpose and Leadership

The specialty insurance sector provides risk solutions to companies that are complex or in industries that require bespoke solutions, often in fast-changing environments. The Group's purpose is to deliver risk solutions that provide continuity to its clients in times of business disruption. This highly specialised, quality underwriting delivers clearly articulated and transparent products that will inspire the trust and confidence of clients.

In order to achieve this purpose, the Group recognises that throughout all areas of the business, it needs to attract and retain highly skilled, disciplined, and experienced individuals of exceptional quality, who thrive in a constantly changing environment. This enables the foundation to Empower Our People to be at the forefront of providing specialty insurance solutions that consider the fast-changing impacts of climate change, technological disruption and other issues that may adversely affect clients.

The overarching Tokio Marine Good Company vision, which incorporates the fundamental values to Look Beyond Profit, Empower Our People and Deliver on Commitments, is consistent with the purpose described above.

Principle 2
Board Composition

Biographies of each Director can be found on pages 40-42.

The Board comprises the Independent Non-Executive Chairman, seven Executive Directors, two Independent Non-Executive Directors and a Non-Executive Director and is supported by the Company Secretary. The Nomination Committee reviewed the composition of the Board in Q3 2020 and recommended to the Board in Q4 2020 approval of the appointment to the Board of Angela Baker (Chief People Officer) and Hideki Mishima (Managing Director – J Business), subject to regulatory approval. The appointments to the Board were recommended due to the growth of the organisation, the establishment of the Japanese Business underwriting segment for HCCII and the importance of the Group's People Strategy to its business, culture, and sustainable growth. Regulatory approval was received during Q1 2021, and Angela Baker and Hideki Mishima were formally appointed on 29 January 2021 and 6 February 2021 respectively.

Kiichiro Hatakeyama (Non-Executive Director) and a Tokio Marine representative resigned from the Board on 31 March 2021. The Nomination Committee reviewed the composition of the Board in September 2021 and recommended the appointment of Ko Shimizu as Non-Executive Director and Tokio Marine representatives. Ko was formally appointed to the Board on 1 January 2022.

The Group has a separate Chairman and Chief Executive to ensure the appropriate segment of responsibilities, accountabilities and decision making is effectively maintained across the Group.

The Non-Executive Directors bring experience in insurance, reinsurance, finance, audit, risk, governance, operations, and the wider Tokio Marine. In addition, they provide the Board with a diversity of perspectives and objective challenge from outside the Group. The Non-Executive Directors held regular meetings with the Chairman during 2021, and these meetings provided them with the opportunity to exchange views without the presence of the Executive Directors.

The Group recognises the benefits of diversity for the Board and is committed to ensuring that the Board's membership reflects diversity in its broadest sense. A combination of demographics, skills, experience, age, ethnicity, gender, educational and professional background, and other relevant personal attributes on the Board is important in providing the range of perspectives and challenge needed to support good decision making. The Group is committed to making its business a more inclusive environment that will foster a more diverse workforce, which should in turn increase diversity at the most senior levels.

The Directors have equal voting rights when making decisions. All Directors have access to the advice and services of the Company Secretary and may, if they wish, take professional advice at the Group's expense.

The duties of the Board are partly executed through its Committees. The Independent Non-Executive Directors attend and act as Chair to relevant Committees so that they are able to contribute to, challenge and influence a range of areas across the business.

The Executive team, comprised of the Chief Executive, Group Chief Financial Officer and the two Chief Underwriting Officers, ensures that the values, strategy, and culture align, are implemented, and are communicated to employees.

The Directors update their skills, knowledge of and familiarity with the business by meeting with senior management, receiving regular presentations at Board meetings from specific departments or lines of business within the Group, and by receiving externally facilitated training. The Group has an induction programme for all new Directors, which is individually tailored according to the specific experience and knowledge of the new Director. This programme provides new Directors with access to all areas of the business and its key individuals. As part of their induction, Directors are briefed on their duties under section 172 of the Companies Act 2006 and are able to access advice on these areas throughout their tenure from either the Company Secretary or an independent external advisor.

The Board undertakes annual reviews of its effectiveness, and those reviews are an integral part of the Board's governance framework. The effectiveness review provides an opportunity to get insight into the functioning of the Board while potentially identifying areas that might need to be strengthened or developed. It allows for in-depth consideration of what resources the Board might need in order to achieve its goals and provides a forum for Directors to reflect on how they are contributing.

For the year ended 31 December 2021 the Board effectiveness review was internally facilitated, and the Board is currently agreeing an action plan from this review early in 2022.

Principle 3
Director Responsibilities

Accountability

The Group's governance framework supports the business to make effective decisions. While the Board has overall responsibility and oversight, the Group's governance framework is designed to ensure that key decisions are made by the individuals and Committees with the most appropriate knowledge and experience. The Board has a schedule of six principal meetings a year and there is a process by which any significant matters are communicated to the Board outside of its scheduled meetings. The Board's key areas of focus in 2021 are included on page 44-45.

Each Director has a clear understanding of their accountability and responsibilities, which are set out in their Statement of Responsibilities. The Independent Non-Executive Directors are considered to be independent in that they have not been an employee of the Group, have no material business relationships with the Group that might influence their independence or judgement, and have not served on the Board for more than nine years from the date of their first appointment.

Directors, Heads of Department, underwriting and claims employees are required to complete annual conflicts of interest declarations. These declarations are collated by the Compliance Department and, where there are potential conflicts, appropriate safeguards and processes have been put in place. The Company Secretary receives annual confirmation of any conflicts of interest for the Board Directors and there is a process in place for the Non-Executive Directors to disclose any potential conflicts to the Chairman and Chief Executive.

Committees

The Board is assisted in the discharge of its duties by a number of Board Committees (Audit, Group Data Protection, Risk and Capital Management, Remuneration, Nomination, Investment, Executive Underwriting and Monitoring, and Sustainability). Each Committee has defined areas of responsibility which are set out in each Committee's terms of reference. The remit and responsibilities of the Board's Committees are set out on pages 46 to 48. A review of the governance structure was undertaken during 2021, and changes to the governance structure and composition of the Board Committees and Sub-Committees were recommended to and approved by the Board.

Integrity of Information

On a quarterly basis, the Board receives information on all key aspects of the business, including: financial and underwriting performance; pricing and market conditions; strategic initiatives; compliance; claims; operational matters; and risk, capital and governance. These reports are supported by key performance and key risk indicators.

Key financial information is collated from the Group's various accounting, underwriting and claims systems. Other information is prepared by relevant departments.

The Group has an internal controls system, which is designed to provide assurance that the information reported is accurate, reliable and compliant with applicable laws and regulations, and that its operations are effectively controlled. The Group's internal controls system is reviewed annually as part of the programme of internal controls testing, which is undertaken by the International Internal Audit Department.

The Board has delegated its responsibility for maintaining and monitoring the effectiveness of the system of internal financial controls and internal controls to the Audit Committee, which receives regular reports from the International Internal Audit Department.

Principle 4
Opportunity and Risk

Opportunity

Strategic opportunities (both near-term and long-term) are identified in the Group's Strategic Business Plan, which is presented to the Board annually. The Group considers opportunities drawn from the business as well as those that align with TMHCC's strategy, with the following examples in 2021:

- growth of the Down Stream Energy book;
- implementation of its IT Strategy and operating model;
- establishment of Marine Cargo consortium growth; and
- growth of Delegated Property.

Risk and Responsibilities

The Group believes that a strong, effective, and embedded Enterprise Risk Management (ERM) framework is crucial to maintaining successful business operations and delivering sustainable, long-term profitability. This is achieved through a strong risk culture, together with rigorous and consistent risk management that is embedded across the Group and embodied by management at all levels through its governance structure and risk management.

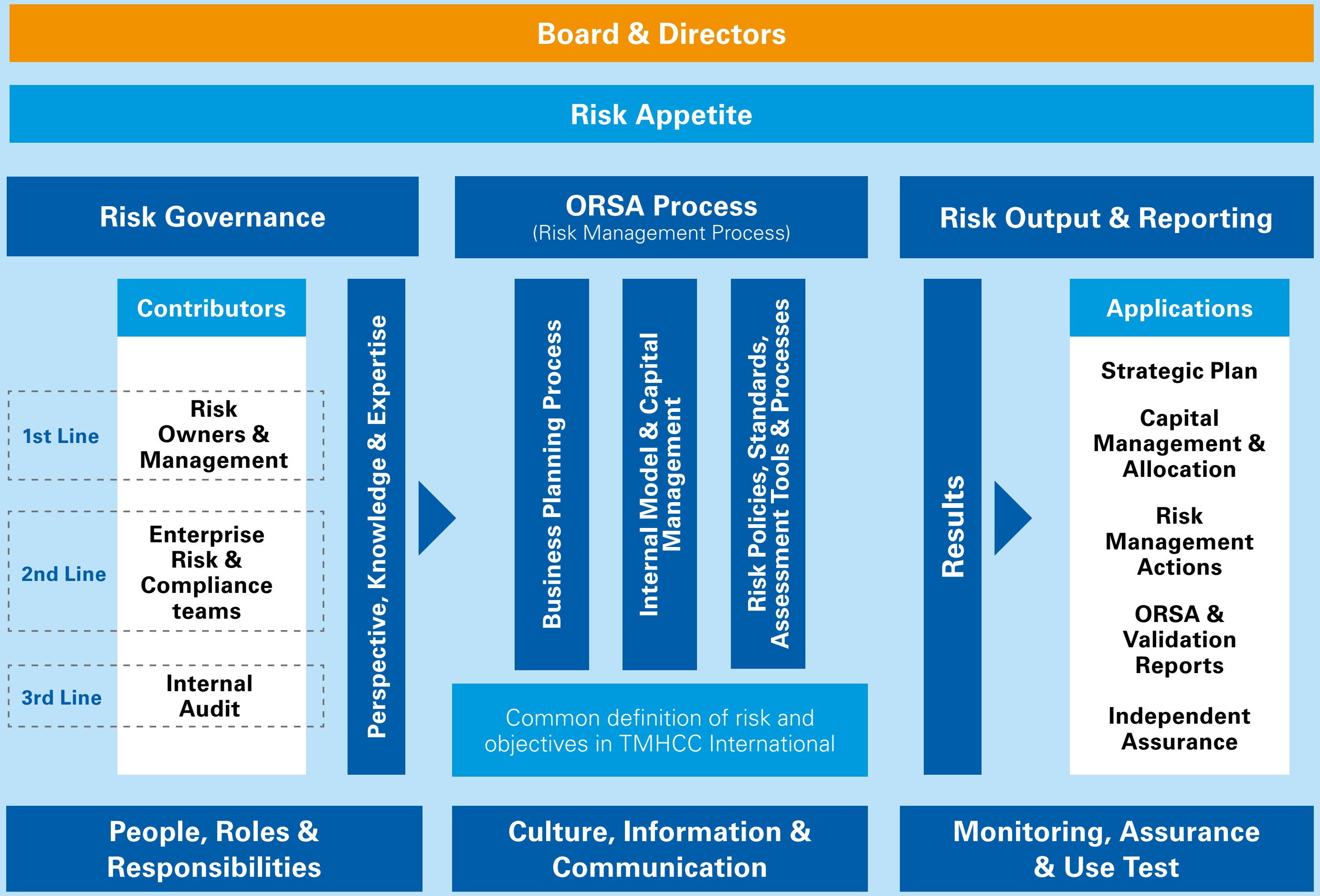
Although the Board has ultimate responsibility for ensuring the Group has a robust ERM framework in place, certain risk management activities are delegated to the level that is the most appropriate to oversee and manage the risks.

The Group's principal risks, uncertainties and mitigations are set out on pages 36 to 39. The Board accepts that the Group's business operations cannot be risk free, therefore the ERM framework is designed to manage risk to a desired level and minimise the adverse effects of any residual risk, rather than to entirely eliminate the risk.

The Group operates a 'three lines of defence' risk governance framework that clearly defines the roles and responsibilities of those involved:

1. Risk owners and senior management.
2. Key functions responsible for risk oversight and risk guidance, including International Compliance and Enterprise Risk Departments and the Risk and Capital Management Committee.
3. Internal Audit provides independent assurance to the Board and senior management on the effectiveness of risk management processes.

The diagram below illustrates the Group's ERM framework, demonstrating how risk appetite, risk governance, risk management, risk output and reporting interact with one another.



Risk Appetite – the level of business risk the Group will take in order to achieve the strategic objectives. The Group has established risk appetite statements, which provide assurance that the Group is able to manage or absorb the impact of a risk in the event it materialises.

Risk Governance – includes risk policies and procedures, Risk and Capital Management Committees and roles and responsibilities ('three lines of defence').

Risk Management – the processes used to identify, measure, manage, monitor, and report risks (including the internal capital model) and stress and scenario testing, are designed to enable dynamic risk-based decision making and effective day-to-day risk management.

The Risk and Capital Management Committee ensures that inherent, emerging and developing risks are identified and managed appropriately and in a timely manner. The Risk and Capital Management Committee meets on a quarterly basis and reviews the risk register, emerging and developing risk radar and a live risk tracker, which are updated quarterly with any changes in underlying risks.

Risks transition from the emerging and developing risk radar to the live risk tracker as they become more likely to impact the Group's strategic objectives. Risks then transition to the risk register when the risk is near to crystallising and requires formal monitoring and the establishment of a risk control framework.

Principle 5
Remuneration

TMHCC International has a Remuneration Policy in place providing a framework for remuneration that rewards performance and attracts, retains and motivates employees to achieve the Group's business objectives while being consistent with its risk appetites and long-term strategy.

The Remuneration Committee has defined terms of reference and is chaired by an Independent Non-Executive Director. The Committee is responsible for reviewing the ongoing appropriateness of the Remuneration Policy and for approving the remuneration arrangements for all employees. Salaries of all Group employees are aligned to the performance of the business and market conditions, with bonuses driven by a combination of personal and business performance.

The Group promotes a diverse and inclusive workplace, and an environment free from discrimination, harassment, and victimisation, where everyone receives equal treatment and career development regardless of age, gender, nationality, ethnic origin, religion, marital status, sexual orientation, or disability. All decisions relating to employment practices (including remuneration) are objective, free from bias, and based solely on work criteria and individual merit. As detailed in the People section on page 28, the Group has taken steps to further strengthen its I&D Strategy and publishes its gender pay reporting information on its website.

Principle 6
Stakeholders

The Board understands that effective corporate governance and communication are vital to the Group's continued success and its stakeholder relationships. The Group's strategy is aligned with its purpose to ensure that its product offering and diversified portfolio of business will continue to meet the needs of its customers, while delivering sustainable long-term growth for its shareholders.

The Group is aware of its broader impact on its stakeholders, including the environment, its customers, and the communities in which it operates. The Group applies the core principles of the Good Company vision, and, to support its approach to being a sustainable and responsible business, has established a sustainability governance structure to support its activities. Details of its sustainability initiative, and other initiatives, can be found in the following sections: Good Company Approach, Charity and Community, People, Business Conduct and Ethics and Climate Risk on pages 25 to 33.

The Board ensures it has effective relationships with all stakeholders through ongoing dialogues that are open, co-operative, and transparent. A table showing how the Group has engaged with its stakeholders during the year is set out on pages 13 to 17.

On behalf of the Board

B J Cook
Chief Executive Officer

Registered in England and Wales at

1 Aldgate, London, EC3N 1RE

Company number 01575839

12 April 2022

The Directors present their Directors' Report and the audited financial statements of the Group for the year ended 31 December 2021.

The Directors' Report is set out on pages 53 to 54. Additional information is incorporated into this Directors' Report by reference and should be read as part of it, including information required by the Companies Act 2006 which is contained in the Corporate Governance Statement on pages 40 to 52 and in the Strategic Report set out on pages 4 to 52.

Strategic Report

The Group is required to produce a fair, balanced and comprehensive review of the Group's business for the financial year. The Strategic Report details the Group's business strategy and business model, location of branches outside the UK, a description of the principal risks and uncertainties, a review of the Group's activities and the position of the Group at 31 December 2021, as well as its prospects for the future.

Indemnification of Directors and Directors' and Officers' Insurance

The Directors have the benefit of an indemnity provision contained in the Group's articles of association, and, to the extent permitted by law, the Group may indemnify its Directors out of its own funds to cover liabilities arising as a result of their office.

Throughout the financial year, the Group has maintained Directors' and Officers' liability insurance as defined by section 236 of the Companies Act 2006.

Conflicts of Interest

The Board has a comprehensive procedure for reviewing and (as permitted by the Companies Act 2006 and the Group's articles of association) approving actual and potential conflicts of interest. Directors have a duty to notify the Chairman and Company Secretary as soon as they become aware of actual or potential conflict situations.

Board of Directors

The Directors of the Group set out below have held office from 1 January 2021 to the date of this report unless otherwise stated:

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

Financial Instruments

Information on the use of financial instruments by the Group and its management of financial risk is disclosed in Note 5 to the financial statements. The Group's exposures to price risk, credit risk and liquidity risk are separately disclosed in that note. The Group's exposure to cash flow risk is addressed under the headings of 'Credit Risk', 'Liquidity Risk' and 'Market Risk'.

Independent Auditors and Disclosure of Audit Information

The Audit Committee recommended, and the Board approved, the proposal that the current auditors PricewaterhouseCoopers LLP, be re-appointed as auditors of the Group in respect of both the annual UK Generally Accepted Accounting Practice (GAAP) financial statements and the Solvency II regulatory returns.

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, 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 Group and of the profit or loss of the Group 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;
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Group will continue in business.

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

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

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

Directors' Confirmations

The Directors consider that the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

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 Group'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 Group's auditors are aware of that information.

Going Concern

The Group'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 considered the impact of managing the Covid-19 pandemic during 2021 to re-rate premiums charged on impacted renewal on the Group's business, which could arise. The potential indirect impact of Covid-19 on the investment portfolio from future volatility in the global financial markets is limited. This is due to the Group's policy of only investing in high-quality, predominantly fixed interest debt.

In light of the above, the Directors concluded that there were no material uncertainties that would cast doubt on the ability of the Group to continue as a going concern for at least 12 months from the date of approval of these financial statements. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Share Capital

HCCII's issued share capital as at the date of this Directors' Report comprises a single class of 96,047,813 Ordinary Shares of £1.00 each and 70,197,001 Ordinary Shares of $1.00 each.

Voting

Each Ordinary Share of HCCII carries one vote.

Substantial Shareholding

At the date of this Directors' Report the shareholder with 100% shareholding in the Group was Tokio Marine HCC Insurance Holdings (International) Limited.

Dividends

The Directors recommend a final dividend of 69 US Cents per ordinary share for the year ended 31 December 2021. Subject to approval by shareholders of the recommended final dividend, the dividend to shareholders for 2021 will total $115 million (2020: $nil). If approved, HCCII will pay the final dividend on 17 June 2022 to shareholders on the register of members at 11 April 2022.

Post Balance Sheet Events

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

On behalf of the Board

J L Holliday
Company Secretary

Registered in England and Wales at

1 Aldgate, London, EC3N 1RE

Company number 01575839

12 April 2022

Independent Auditors Report

Independent auditors' report to the members of HCC International Insurance Company plc

Report on the audit of the financial statements

Opinion

In our opinion, HCC International Insurance Company plc's group financial statements and company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2021 and of the group's profit and the group's cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report & Consolidated Financial Statements (the "Annual Report"), which comprise: the Consolidated and Company Balance Sheets as at 31 December 2021; the Consolidated Profit and Loss Account, the Consolidated Statement of Other Comprehensive Income, the Consolidated Statement of Cash Flows, and the Consolidated and Company Statements 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.

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 group 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.

Other than those disclosed in Note 9, we have provided no non-audit services to the company or its controlled undertakings in the period under audit.

Our audit approach

Context

HCC International Insurance Company plc (the 'Company') and its subsidiaries (the 'Group') is a general insurance group located in the United Kingdom and Continental Europe. The Group operates from a number of offices across the UK and also in Spain, Ireland, France, Switzerland, Germany, Italy, Norway, Belgium, Netherlands and Denmark. Our work to address the audit risks that are inherent to the business is supported by our in-house specialists, with our approach consisting of a blend of controls and substantive testing.

Overview

Audit scope	Key audit matters	Materiality
We performed full scope audit procedures over the Group's UK insurance company and European insurance company operations. We identified certain other operations where account balances were significant by virtue of materiality in size or audit risk. These balances were scoped into our audit through specified procedures.	Valuation of claims incurred but not reported ('IBNR') reserves and the associated reinsurers' share of claims IBNR reserves (group and parent). Recoverability of Goodwill (group).	**Overall Group materiality:** US$11,100,000 (2020: US$8,200,000) based on the change in net earned premium which results in 1% change of combined operating ratio excluding other technical income ("COR"). **Overall Company materiality:** US$9,600,000 (2020: US$6,900,000) based on the change in net earned premium which results in 1% change of combined operating ratio excluding other technical income ("COR"). **Performance materiality:** US$8,325,000 (2020: US$6,150,000) (group) and US$7,200,000 (2020: US$5,175,000) (company).

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.

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.

Recoverability of Goodwill is a new key audit matter this year. Impact of COVID-19 (group and parent), which was a key audit matter last year, is no longer included because of the fact that the uncertainty associated with COVID-19 has reduced as greater clarity has been obtained on insurance exposures and hybrid working practices have become embedded. Insurance exposure related elements of Covid 19 have been considered as part of the Key Audit Matter related to IBNR. Otherwise, the key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
Recoverability of Goodwill (group) Refer to item 3.f and 3.g in the Summary of significant accounting policies and to note 13 to the Group financial statements for disclosures of related policies and balances. HCCI's (Group) goodwill arises principally from its acquisition of Qdos Holdings Limited and its subsidiary Qdos Broker and Underwriting Services Limited (together 'Qdos') in 2018 and the acquisition of GCube Underwriting Limited and Renewable Energy Loss Adjusters Limited (collectively, "GCube") in May 2020. 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. The carrying value of goodwill as at 31 Dec 2021 is $74.4m (2020: $79m). The assumptions used by management in these accounting estimates involve a significant degree of judgement. In particular, there is a risk that the assumptions (e.g. forecasts and growth rate, discount rate, terminal growth rate) used to estimate the impairment of goodwill assets are not reasonable.	In assessing whether or not goodwill is impaired or otherwise we conducted the following procedures: • Obtained and understood management's goodwill recoverability assessment including the associated processes and controls, including making inquiries and requests for supporting documentation; and • Tested management's assessment by: - Testing the mathematical accuracy of management's model; - Agreeing model inputs used by management to supporting documentation; - Comparing assumptions used to estimate future cash flow projections to historical trends and approved forward looking business plans; and - Testing key model assumptions, including assessing key sensitivities. Based on the procedures performed we consider the methodologies and assumptions used in assessing goodwill impairment to be appropriate and supported by the evidence we obtained.

Key audit matter	How our audit addressed the key audit matter
Valuation of claims incurred but not reported ('IBNR') reserves and the associated reinsurers' share of claims IBNR reserves (group and parent) Refer to item 3.c in the Summary of significant accounting policies and to note 20 and 7 to the Group and Company's financial statements for disclosures of related policies and balances. 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 2021, the value of the Group's claims IBNR reserves and the associated reinsurers' share of IBNR reserves is $963.1 million and $434.8 million respectively. These estimates are included within technical provisions - gross claims outstanding of $1,712.2 million and the reinsurers' share of claims outstanding of $801.7 million respectively as set out in Note 20. As at 31 December 2021, the value of the Company's claims IBNR reserves and the associated reinsurers' share of IBNR reserves is $650.8 million and $165.3 million respectively. These estimates are included within technical provisions - gross claims outstanding of $1,127.8 million and the reinsurers' share of claims outstanding of $335.1 million respectively as set out in Note 9 Technical Provisions – Company. The methodologies and assumptions used by the directors to estimate the Group and Company's claims IBNR reserves and the associated reinsurers' share of claims IBNR reserves involves a significant degree of judgement and, for the affected classes, the risk associated with these continues to be impacted by COVID 19. We consider the key drivers of this risk to be as follows: • The judgements and assumptions used in significant areas of uncertainty e.g. Financial Lines, Liability, and COVID-19 impacted classes e.g. UK Contingency; • The consistency of management's approach from year-to-year; • The impact of the current economic and rating environment; • The assessment and development of large and catastrophe losses; and • The judgements and assumptions used when determining IBNR	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 by the directors. We have also agreed 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 2021 and performing roll-forward procedures to 31 December 2021; • 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 claims IBNR reserves; • Applying gross to net ratios against the estimated claims IBNR reserves to calculate the estimated reinsurers' share of claims IBNR reserves; • Comparing our estimates, based on the procedures performed above, to those booked by management; and • Testing managements reserving for catastrophe events by understanding management's approach to setting the best estimate loss reserves, testing the operating effectiveness of relevant controls, assessing the adequacy of booked reserves by comparing them back to underwriters' estimates and reperforming the calculation of reinsurance recoveries. 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 group and the company, the accounting processes and controls, and the industry in which they operate.

Using the outputs from our risk assessment, along with our understanding of the Group, we scoped our audit based on the significance of the results and financial position of individual components relevant to the Group result and financial position. In doing so, we also considered qualitative factors and ensured we had obtained sufficient coverage across all financial statement line items in the consolidated financial statements. Our scoping provided us with coverage of over 95% of Group profit before tax, and over 95% of Group total assets. Based on the outputs of our audit scoping exercise, we identified the Group's components to be the Company and its subsidiaries. We performed a full scope audit of the Company and its insurance subsidiary undertaking, Tokio Marine Europe S.A, as they had the most significant impact on the consolidated financial statements. For the remaining components, we identified certain account balances which were considered to be significant in size or audit risk and scoped the audit to include detailed testing of these account balances. As the Group engagement team, we determined the level of involvement required by other auditors to be able to conclude whether sufficient and appropriate audit evidence had been obtained as a basis for our opinion on the financial statements as a whole. We exercised oversight over the work performed by other auditors by maintaining regular and timely communication, including performing video-calls, discussions, review of working papers 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:

	Financial statements – Group	Financial statements – Company
Overall materiality	US$11,100,000 (2020: US$8,200,000).	US$9,600,000 (2020: US$6,900,000).
How we determined it	The change in net earned premium which results in (in both group and company) 1% change of combined operating ratio excluding other technical income ("COR").	The change in net earned premium which results in (in both group and company) 1% change of combined operating ratio excluding other technical income ("COR").
Rationale for benchmark applied	In determining materiality, we considered financial metrics which we believe relevant to the primary users of the Group and Company's financial statements. We concluded that the COR was the most relevant benchmark as it provides an indicator of relative performance and is a focus of the directors.	In determining materiality, we considered financial metrics which we believe relevant to the primary users of the Group and Company's financial statements. We concluded that the COR was the most relevant benchmark as it provides an indicator of relative performance and is a focus of the directors.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was US$6,000,000–US$9,600,000. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2020: 75%) of overall materiality, amounting to US$8,325,000 (2020: US$6,150,000) for the group financial statements and US$7,200,000 (2020: US$5,175,000) for the company financial statements.

In determining the performance materiality, we considered a number of factors – the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls – and concluded that an amount in the middle of our normal range was appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above US$555,000 (group audit) (2020: US$410,000) and US$480,000 (company audit) (2020: US$345,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the group's and the company's ability to continue to adopt the going concern basis of accounting included:

- Obtaining and assessing the reasonableness of the Directors' assessment, taking into consideration the Group and Company's year-end investment portfolio and its exposure to certain types of assets, cash flows and liquidity analysis and operational resilience;
- Considering management's assessment of the regulatory Solvency coverage and liquidity position;
- Considering information obtained during the course of the audit and publicly available market information to identify any evidence that would contradict management's assessment of going concern (including the impacts of COVID-19);
- Inquiring and auditing actions taken by management to mitigate the impacts of COVID-19, including review of Risk and Capital Management Committee minutes and attendance of all Audit Committees; and
- Assessing the appropriateness of disclosure made by management in the Directors' Report regarding the entity's ability to continue as a going concern for at least 12 months from the date of approval of these financial statements.

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

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

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

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

Reporting on other information

The other information comprises all of the information in the Annual Report other than the 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 our work undertaken in the course of the audit, the Companies Act 2006 requires 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 2021 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 group and company and their 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, 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 group's and 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 group or 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.

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

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK regulatory principles, such as those governed by the Prudential Regulation Authority and the Financial Conduct Authority as well as regulatory principles in Luxembourg, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to the posting of inappropriate journals and management bias in accounting estimates. The group engagement team shared this risk assessment with the component auditors so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the group engagement team and/or component auditors included:

- Challenging assumptions and judgements made by management in their significant accounting estimates, in particular in relation to valuation of the claims reserves as described in the related key audit matter above;
- Identifying and testing journal entries, in particular any journals that appear to be posted outside the normal patterns and parameters, any journal entries posted with unusual account combinations and journals posted by senior management; and
- Discussions with management, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud.

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

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

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. 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.

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 obtained 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 company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

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 17 years, covering the years ended 31 December 2005 to 31 December 2021.

Philip Watson
(Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

London

12 April 2022

Financial statements

Consolidated Profit and Loss Account

For the year ended 31 December 2021

Technical account – general business	Note	2021 $'000	2020 $'000
Earned premiums, net of reinsurance			
Gross premiums written	6	1,628,475	1,195,412
Outward reinsurance premiums		(597,647)	(417,241)
Net premiums written		**1,030,828**	**778,171**
Change in the gross provision for unearned premiums	20	(183,545)	(115,315)
Change in the provision for unearned premiums, reinsurers' share	20	68,112	42,931
Change in the net provision for unearned premiums		**(115,433)**	**(72,384)**
Earned premiums, net of reinsurance		**915,395**	**705,787**
Allocated investment return transferred from the non-technical account	7	29,504	26,265
Other technical income	11	16,211	11,918
Total technical income		**961,110**	**743,970**
Claims incurred, net of reinsurance			
Claims paid:			
– gross amount		(479,404)	(416,738)
– reinsurers' share		221,669	192,157
Net claims paid		**(257,735)**	**(224,581)**
Change in the provision for claims:			
– gross amount	20	(356,854)	(227,355)
– reinsurers' share	20	200,205	125,491
Change in the net provision for claims		**(156,649)**	**(101,864)**
Claims incurred, net of reinsurance		**(414,384)**	**(326,445)**
Net operating expenses	8		
Total technical charges		**(744,648)**	**(593,595)**
Balance on the technical account for general business	**6**	**216,462**	**150,375**

All results derive from continuing operations.

Consolidated Profit and Loss Account and Consolidated Statement of Other Comprehensive Income

For the year ended 31 December 2021

Non-technical account	Note	2021 $'000	2020 $'000
Balance on the technical account for general business		216,462	150,375
Investment Income:			
Income from other financial investments	7	30,676	27,506
Gains on the realisation of investments	7	1,237	972
		31,913	28,478
Investment expenses and charges		(2,409)	(2,213)
Allocated investment return transferred to the general business technical account		(37,596)	49,905
Unrealised (losses)/gains on financial investments		(29,504)	(26,265)
Other income	7	65	187
		(37,531)	50,092
Net foreign exchange gains/(losses)		13,894	(5,274)
Other charges	10	(26,146)	(18,313)
Profit on ordinary activities before tax		166,679	176,880
Tax on profit on ordinary activities	12	(39,481)	(34,132)
Profit for the financial year		**127,198**	**142,748**

Consolidated Statement of Other Comprehensive Income

For the year ended 31 December 2021

	Note	2021 $'000	2020 $'000
Profit for the financial year		127,198	142,748
Currency translation differences		16	1,332
Total consolidated comprehensive income		**127,214**	**144,080**

The Consolidated Profit and Loss Account and Consolidated Statement of Other Comprehensive Income should be read in conjunction with the accompanying notes.

Consolidated Balance Sheet

As at 31 December 2021

Assets	Note	2021 $'000	2020 $'000
Intangible assets			
Goodwill	13	74,409	79,000
Other intangible assets	13	54,766	59,752
		129,175	138,752
Investments			
Land and buildings		239	239
Other financial investments	14	1,819,817	1,517,455
		1,820,056	1,517,694
Reinsurers' share of technical provisions			
Provision for unearned premiums	20	219,375	164,038
Claims outstanding	20	801,740	625,898
		1,021,115	789,936
Debtors			
Debtors arising out of direct insurance operations			
- Policyholders		44,266	40,095
- Intermediaries		306,712	245,673
Debtors arising out of reinsurance operations		235,874	217,756
Other debtors	16	44,649	37,989
		631,501	541,513
Other assets			
Tangible assets	17	7,102	6,677
Deposits from third parties		49,628	48,522
Cash at bank and in hand		292,032	287,283
		348,762	342,482
Prepayments and accrued income			
Accrued interest and rent		11,357	9,658
Deferred acquisition costs	20	132,959	102,264
		144,316	111,922
Total assets		**4,094,925**	**3,442,299**

Consolidated Balance Sheet

As at 31 December 2021

Liabilities	Note	2021 $'000	2020 $'000
Capital and reserves			
Called up share capital	18	233,242	233,242
Share premium		19,115	19,115
Merger reserve		(19,115)	(19,115)
Other reserve		(91)	(107)
Profit and loss account		899,449	772,251
Total shareholder's equity		**1,132,600**	**1,005,386**
Technical provisions			
Provision for unearned premiums	20	707,350	558,907
Claims outstanding	20	1,712,161	1,408,952
		2,419,511	1,967,859
Creditors – amounts due within one year			
Creditors arising out of direct insurance operations		39,787	40,500
Creditors arising out of reinsurance operations		270,654	214,670
Other creditors including taxation and social security	19	44,185	49,387
Deposits from third parties		49,688	48,587
		404,314	353,144
Accruals and deferred income			
Accruals		84,656	75,906
Deferred acquisition costs arising out of reinsurance operations	20	53,844	40,004
		138,500	115,910
Total liabilities		**4,094,925**	**3,442,299**

The financial statements on pages 63 to 115 were approved by the Board of Directors and were signed on its behalf by

K L Letsinger
Director

12 April 2022

Company registration number 1575839

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

Consolidated Statement of Changes in Shareholders' Equity

For the year ended 31 December 2021

Capital and reserves	Called up share capital $'000	Share premium $'000	Profit and loss account $'000	Currency exchange reserve $'000	Merger reserve $'000	Total equity $'000
At 1 January 2021	233,242	19,115	772,251	(107)	(19,115)	1,005,386
Profit for the financial year	-	-	127,198	-	-	127,198
Other Comprehensive Income	-	-	-	16	-	16
At 31 December 2021	233,242	19,115	899,449	(91)	(19,115)	1,132,600

Capital and reserves	Called up share capital $'000	Share premium $'000	Profit and loss account $'000	Currency Exchange reserve $'000	Merger reserve $'000	Total equity $'000
At 1 January 2020	233,242	19,115	629,503	(1,439)	(19,115)	861,306
Profit for the financial year	-	-	142,748	-	-	142,748
Other Comprehensive Income	-	-	-	1,332	-	1,332
At 31 December 2020	233,242	19,115	772,251	(107)	(19,115)	1,005,386

The Consolidated Statement of Changes in Shareholders' Equity should be read in conjunction with the accompanying notes.

Consolidated Statement of Cash Flows

For the year ended 31 December 2021

	Note	2021 $'000	2020 $'000
Cash inflow from operating activities	21	48,075	199,166
Taxation paid		(42,405)	(44,566)
Net cash generated from operating activities		5,670	154,600
Cash flow from investing activities			
Acquisition of subsidiary (net of cash and assets acquired)		-	(41,306)
Purchase of tangible assets		(921)	(3,466)
		(921)	(44,772)
Net increase in cash at bank and in hand		4,749	109,828
Cash and cash equivalents at the beginning of the year		287,283	177,455
Cash and cash equivalents at the end of the year		292,032	287,283
Cash and cash equivalents consist of:			
Cash at bank and in hand		292,032	287,283
		292,032	287,283

The Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

Notes to the consolidated financial statements

1. General information

HCC International Insurance Company plc ('HCCII') and its subsidiaries (together 'the Group') is authorised by the Prudential Regulation Authority ('PRA') and regulated by both the Financial Conduct Authority ('FCA') and the PRA. The principal activity of HCCII is the transaction of general insurance business in the United Kingdom and Continental Europe where its subsidiary in Luxembourg benefits from the European Union Freedom of Services charter to write across the European Union member states. The Group operates from a number of offices across the UK and also in Spain, Ireland, France, Switzerland, Germany, Italy, Norway, Belgium, Netherlands and Denmark. HCCII 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. Basis of preparation

The consolidated financial statements of HCCII have been prepared in accordance 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. The Group financial statements have been prepared in compliance with the provisions of the Large and Medium-sized Companies and Groups (Financial Statements and Reports) Regulations relating to insurance groups.

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

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 Group 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.

3. Summary of significant accounting policies

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

A. Basis of consolidation

The consolidated financial statements include the financial statements of HCCII and all of its subsidiary undertakings up to 31 December 2021.

A subsidiary is an entity controlled by the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

HCCII has taken advantage of the exemption in section 408 of the Companies Act from disclosing its individual Profit and Loss Account.

B. Foreign currency

The Group's functional and presentation currency is US Dollars. For subsidiaries whose functional currency is US Dollars, 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 prevailing at that time. For this purpose, all assets and liabilities arising from Insurance contracts (including Unearned premiums and Deferred acquisition costs) 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.

For subsidiaries whose functional currency is not US Dollars the results and financial position are translated into the presentation currency as follows:

(a) Assets and liabilities are translated at the closing rate at the balance sheet date;

(b) Income and expenses are translated at the average rate of exchange during the year; and

(c) All resulting exchange differences are recognised in the Consolidated statement of Other comprehensive income.

C. Insurance contracts

i. Classification of insurance

The Group 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 Group 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 incurred in respect of issuing insurance contracts, are deferred over the period in which the related premiums are earned.

d. Claims incurred
Claims incurred comprise claims and related expenses paid in the year and changes in the provisions for outstanding claims, including provisions for claims incurred but not reported ('IBNR') and related loss adjustment expenses, together with any other adjustments to claims for previous years. Where applicable, deductions are made for estimated 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 reported to the Group, expenses to be incurred in settling claims and deduction for expected value of salvage and other recoveries on claims not settled. Whilst the Group takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures, 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 IBNR is generally subject to a greater degree of uncertainty than the estimate of the cost of settling claims already notified to the insurer, 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 Group 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 the Group's 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.

Another component of these estimation techniques is the estimation of the cost of notified to the Group but not paid claims. In estimating the cost of these, the Group has regard to the claim circumstance as reported, any information available from loss adjusters where applicable 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 Group 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 Group 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 Group'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.

f. 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 the PRA. To protect the Group on a specific risk basis and to allow to write larger lines where necessary specific facultative reinsurance is purchased, these reinsurances protect specific risks or lines and so cost and recoveries are attributed to the entity writing the risk in question. Additionally, quota share reinsurance is purchased at an International level and allocated across the International platforms 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".

g. Subrogation and salvage
Recoveries arising out of subrogation or salvage on settled claims are estimated on a prudent basis and included within Other debtors.

D. 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.

E. Allocated investment return transferred from the non-technical account

This income represents the total realised and earned net investment return that relates to assets which are held to cover the technical provision and which are transferred from the non-technical account in order to ensure that the technical account reflects all transactions arising from conducting insurance business.

F. Business combinations and goodwill

Business combinations are accounted for by applying the purchase method.

Business combinations

The Group measures the cost of a business combination as the fair value of the consideration given, plus the costs directly attributable to the business combination.

Contingent consideration is initially recognised as an estimated amount where the consideration is probable and can be measured reliably. Where (i) the contingent consideration is not considered probable or cannot be reliably measured but subsequently becomes probable and measurable or (ii) contingent consideration previously measured is adjusted, the amounts are recognised as an adjustment to the cost of the business combination.

On acquisition of a business, fair values are attributed to the identifiable assets, liabilities and contingent liabilities unless the fair value cannot be measured reliably, in which case the value is incorporated in goodwill. Where the fair value of contingent liabilities cannot be reliably measured, they are disclosed on the same basis as other contingent liabilities.

Goodwill

Goodwill recognised represents the excess of the fair value of the purchase consideration and directly attributable costs over the fair values to the Group's interest in the identifiable net assets, liabilities and contingent liabilities acquired.

Goodwill is amortised over its expected useful life. Goodwill is assessed for impairment annually and any impairment is charged to the income statement immediately. Reversals of impairment are recognised when the reasons for the impairment no longer apply.

G. Intangible assets

Intangible assets representing broker relationships and trade brand names are stated at cost less accumulated amortisation and accumulated impairment losses. 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 which are 15 years. 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.

H. Land and buildings

On a periodic basis, management consider the open market valuation of the Group's land and buildings held as investments. The valuation is performed by an independent suitably qualified valuer on an occupied basis.

Any aggregate surplus or deficit on revaluation of investment properties is taken to the non-technical account. Should the valuation fall below its cost then any impairment is charged to the technical account immediately.

Revaluation gains on owner occupied properties are taken to Other comprehensive income except to the extent that those gains reverse a revaluation loss on the same property that was previously recognised as expense. Revaluation losses on owner occupied properties are taken to Other comprehensive income to the extent they reverse a previously recognised revaluation gain with any further loss exceeding that gain charged in the Non-technical account.

I. Tangible assets

Tangible assets are stated at cost less accumulated depreciation and accumulated impairment expense/ losses. Cost includes the original price and costs directly attributable to bringing the assets to their working condition for its intended use.

Depreciation

Tangible assets are depreciated from the time when they are available for use and are depreciated on a straight-line basis over their estimated useful lives as follows:

- Leasehold improvements
  10 years
- Computer equipment
  3 years
- Fixtures, fittings and office equipment
  5 years

Derecognition

Tangible assets are derecognised on disposal or when no future economic benefits are expected. On disposal, the difference between the net disposal proceeds and the carrying amount is recognised in the Non-technical account and included in 'Other charges and other operating expenses'.

J. 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 there is such an indication the recoverable amount of the asset is compared with the carrying amount of the asset and if the recoverable amount is lower an impairment loss is recognised immediately in the profit and loss account.

The recoverable amount of the asset (or asset's cash generating unit) is the higher of the fair value less costs to sell and value in use. Value in use is defined as the present value of the future cash flows before interest and tax obtainable as a result of the asset's continued use. These cash flows are discounted using a pre-tax discount rate that represents the current market risk-free rate and the risks inherent in the asset (or asset's cash generating unit).

If the recoverable amount of the asset (or asset's cash generating unit) is estimated to be lower than the carrying amount, the carrying amount is reduced to its recoverable amount. An impairment loss is recognised immediately in the profit and loss account, unless the asset has been revalued when the amount is recognised in Other comprehensive income to the extent of any previously recognised revaluation surplus. Thereafter, any remaining deficit is recognised in 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. Any further reversal of an impairment loss is recognised immediately in the profit and loss account.

K. Investments in subsidiary undertakings – Company

Investments in subsidiary undertakings are stated in the balance sheet at fair value with changes in fair value recognised in Other comprehensive income, or, if an impairment expense, in the profit and loss account.

L. Cash and cash equivalents

Cash and cash equivalents include 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.

M. Financial instruments

The Group has adopted sections 11 and 12 of 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.

N. Financial assets

The Group classifies its financial assets into the following categories:

- Shares and other variable yield securities – 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;
- Real estate investment trust loans – at fair value through profit or loss: and
- Loans and receivables.

Management determines the classification of its investments at initial recognition.

Fair value through profit or loss

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 Group's key management personnel. The Group's investment strategy is to predominantly invest in fixed and variable interest rate debt securities.

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 are designated 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.

The fair values of Real estate investment trust loans are provided quarterly by the fund manager based on modelling earnings results of comparable property loan assets under current market conditions.

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 Group intends to sell in the short term or that it has designated at fair value through profit or loss. Loans and receivables are subsequently measured at amortised cost using the effective interest rate method. Receivables arising from insurance contracts are also classified in this category and are reviewed for impairment as part of the impairment review of loans and receivables. This basis of valuation is viewed by the directors as having prudent regard to the likely realisable value.

O. Impairment of financial assets

For financial assets not at fair value, the Group 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 Group 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 becomes 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 Group.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If the Group 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 Group 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 Group'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.

Financial liabilities Financial liabilities are creditors and are recognised initially at fair value, net of directly attributable transaction costs.

P. Investment return

Interest income from loans and receivables 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 the profit and loss account 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 or 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 and unrealised returns on investments supporting the insurance technical provisions and related shareholders' funds.

Q. Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

R. Distributions to equity holders

Dividends and other distributions to the Group'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.

S. Share premium

Share premium represents the difference between the nominal value of shares issued and the fair value of consideration received in exchange for these shares.

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 estimate assumptions 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 Group's most critical accounting estimate. The carrying amount of the claims outstanding, net of reinsurance is $910.4m (2020: $783.1m). There are many sources of uncertainty that need to be considered in the estimate of the liability that the Group 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 amount 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 and classified as level 2. The carrying value of these level 2 instruments is $1,757.9m (2020: $1,458.8m), see Note 15 for pricing basis. The Group uses its judgement to select a variety of methods and to make assumptions that are mainly based on market conditions existing at the end of each reporting period.

III. Estimated impairment of goodwill and other intangible assets

In accordance with the accounting policy for Goodwill (see note 3f) and Other intangibles assets (see note 3g) are capitalised at cost and amortised over useful economic life on a straight-line basis. On an annual basis the directors consider whether there are any events or changes in circumstances which indicate that the carrying value of goodwill and intangibles may not be recoverable. The carrying value of goodwill and other intangible assets is $74.4m (2020: $79.0m) and $54.8m (2020: $59.8m), respectively. Any decrease in value determined would affect the Group's financial position.

IV. Pipeline premium

The Group makes an estimate of premiums written on a policy by policy basis. Pipeline premium is the difference between estimated premium and booked premium. For the majority of lines written, premium is adjusted to equal booked premiums two years post expiry. Pipeline premium is recorded within gross written premium and an assessment is made of the related unearned premium provision and an estimate of claims incurred but not reported in respect of the earned element. The pipeline premium included within net written premium is $249.2m (2020: $171.4m).

5. Risk management

The Group 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 Group 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 Group's risk appetite and explain how it defines and manages each category of risk. The disclosures set out in this note have been presented at the Group level. HCCII disclosures are included within the notes to the company financial statements.

5.1 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 the Group's assumption of this risk 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 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; and
- **expense risk –** the risk that the allowance for expenses and inflation in pricing is inadequate.

The Group manages and models these four elements 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 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 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.

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 Group'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.

The Group continues to monitor the evolving military conflict in Ukraine, which commenced in February 2022 and the associated Russian and Belarusian exposures. The impact on the Group is currently considered to be limited with only a few classes of business that have direct exposure. The indirect exposures are limited by the Group's cautious investment strategy and robust operational frameworks. The impact of the conflict on future business is also expected to be limited.

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 Group's reinsurance programme is comprised of excess of loss cover, facultative insurance cover and quota share cover which may be overplaced 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 Group reinsurance approval committee examines and approves all reinsurers to ensure that they possess suitable security. The Group's reinsurance team ensures that these guidelines are followed, undertakes the administration of reinsurance contracts and monitors and instigates the Group's responses to any erosion of the reinsurance programmes.

iii. Claims management 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's 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 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.

iv. Reserving 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.

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 gathering information from and recommendations by each underwriting team for each underwriting year and reserving class of business. These estimates are compared with 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.

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

Loss development triangles – GROSS Ultimate claims and cumulative payments	Accident year 2013 $'000	2014 $'000	2015 $'000	2016 $'000	2017 $'000	2018 $'000	2019 $'000	2020 $'000	2021 $'000	Total $'000
End of reporting year	196,176	167,117	193,661	269,155	264,729	291,204	513,078	583,993	708,934	
- one year later	208,869	173,530	225,682	270,251	263,645	377,091	593,535	672,938		
- two years later	208,829	145,634	246,036	263,575	281,481	378,552	615,992			
- three years later	190,004	145,428	235,684	325,548	308,452	382,311				
- four years later	178,162	144,328	241,077	319,648	279,549					
- five years later	177,137	160,652	221,349	331,449						
- six years later	169,673	159,762	242,368							
- seven years later	165,922	156,944								
- eight years later	166,854									
Current estimate of ultimate claims	166,854	156,944	242,368	331,449	279,549	382,311	615,992	672,938	708,934	
Cumulative payments to date	153,399	139,376	196,722	270,913	236,517	237,127	331,181	287,125	85,934	
Liability recognised in the balance sheet	13,455	17,568	45,646	60,536	43,032	145,184	284,811	385,813	623,000	1,619,045
Provision in respect of previous years										93,116
Total provision included in the balance sheet										**1,712,161**

Loss development triangles – NET Ultimate claims and cumulative payments	Accident year 2013 $'000	2014 $'000	2015 $'000	2016 $'000	2017 $'000	2018 $'000	2019 $'000	2020 $'000	2021 $'000	Total $'000
End of reporting year	167,977	127,591	151,805	197,582	203,996	222,135	294,862	301,611	400,799	
- one year later	164,287	125,732	165,287	194,634	213,187	266,704	315,843	323,040		
- two years later	155,811	103,657	162,813	185,912	213,020	273,696	290,017			
- three years later	149,414	107,682	157,153	222,583	231,997	277,530				
- four years later	145,273	108,738	162,206	218,276	207,678					
- five years later	141,624	115,645	152,886	230,659						
- six years later	134,871	116,210	163,529							
- seven years later	136,195	116,220								
- eight years later	135,737									
Current estimate of ultimate claims	135,737	116,220	163,529	230,659	207,678	277,530	290,017	323,040	400,799	
Cumulative payments to date	118,895	102,618	138,316	186,921	189,714	197,106	154,885	138,224	53,838	
Liability recognised in the balance sheet	16,842	13,602	25,213	43,738	17,964	80,424	135,132	184,816	346,961	864,692
Provision in respect of previous years										45,729
Total provision included in the balance sheet										**910,421**

5.2 Strategic, regulatory and group risk

The Group manages strategic, regulatory and group risks together. Each element is considered below:

i. Strategic 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.

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.

ii. Regulatory 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, which is owned by the finance team.

Capital management

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 Group's medium-term capital needs. Additionally, EIOPA's Solvency II Standard Formula Solvency Capital Requirement ('SF SCR') is used as the measure for required regulatory capital for the Group and HCCII. The Board has reviewed the SF SCRs against the ECMs and has concluded that the SF SCRs are appropriate. The SF SCRs are measured against the Solvency II Available Assets to monitor solvency ratios. Given the inherent volatility of the SF SCR and Solvency II Available Assets, the Group carried an amount in excess of the regulatory minimum. At 31 December 2021 the Group Solvency II available assets are 472% of the regulatory minimum capital requirement and 145% of the SF SCR.

iii. Group risk

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

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. HCCII and Group are members of various groups, including TMHCC International, the TMHCC Group and the wider Tokio Marine, and they 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 various groups to ensure all relevant entities are well informed and working to common goals.

Reputation

Reputation risk is the risk of negative publicity as a result of the TMHCC Group's or the wider Tokio Marine's contractual arrangements, customers, products, services and other activities. 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 Tokio Marine brand are significant.

The Group 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 Group's investment strategy and is key to the investment of Group 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 2021, the investment risk budget was re-confirmed as the amount of an investment loss, at the 1-in-200 Tail Value at Risk (TVaR) level, and would be no more than the Group's excess capital (above the regulatory minimum). The investment risk appetite for 2022 is consistent with 2021.

Investment strategy is consistent with this risk appetite and investment risk is monitored on an ongoing basis. The internal model includes an asset risk module, which uses an Economic Scenario Generator ('ESG') to create 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 Group 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.

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

i. Foreign exchange risk

The Group's functional and reporting currency is the US Dollar and, when possible, the Group 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 Group is mainly exposed to revaluation FX gains/losses of unmatched non-US Dollars denominated positions.

The Group operates in six main currencies: US Dollars; Sterling; Canadian Dollars; Swiss Francs; Australian Dollars and Euros. Transactions in all currencies are converted to the US Dollars functional currency on initial recognition with any balances on monetary items at the reporting date being translated at the US Dollars 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 Group's main currencies.

FX risk exposure 31 December 2021	AUD $ $'000	CAD $ $'000	CHF Fr $'000	EUR € $'000	GBP £ $'000	Subtotal $'000	USD $ $'000	Total $'000
Total assets	114,091	15,034	47,393	971,633	798,379	1,946,530	2,148,395	4,094,925
Total liabilities	(127,286)	(13,609)	(41,582)	(1,058,144)	(853,762)	(2,094,383)	(867,942)	(2,962,325)
Net assets	**(13,195)**	**1,425**	**5,811**	**(86,511)**	**(55,383)**	**(147,853)**	**1,280,453**	**1,132,600**
Net profit/(loss)	**1,876**	**(36)**	**2,387**	**29,634**	**(7,575)**	**26,286**	**100,912**	**127,198**

FX risk exposure 31 December 2020	AUD $ $'000	CAD $ $'000	CHF Fr $'000	EUR € $'000	GBP £ $'000	Subtotal $'000	USD $ $'000	Total $'000
Total assets	76,700	7,992	43,736	917,465	676,118	1,722,011	1,720,288	3,442,299
Total liabilities	(91,767)	(6,530)	(40,307)	(876,651)	(723,344)	(1,738,599)	(698,314)	(2,436,913)
Net assets	**(15,067)**	**1,461**	**3,429**	**40,814**	**(47,226)**	**(16,588)**	**1,021,974**	**1,005,386**
Net profit/(loss)	**(10,625)**	**(557)**	**4,394**	**(1,108)**	**23,424**	**15,528**	**127,220**	**142,748**

Sensitivity analysis

Fluctuations in the Group'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	
Change in exchange rate of Canadian Dollar, Australian Dollar, Swiss Franc, Euro and Sterling, relative to US Dollar	2021 $'000	2020 $'000	2021 $'000	2020 $'000
US Dollar weakens 30% against other currencies	6,387	3,773	(44,356)	(4,976)
US Dollar weakens 20% against other currencies	4,258	2,516	(29,571)	(3,318)
US Dollar weakens 10% against other currencies	2,129	1,258	(14,785)	(1,659)
US Dollar strengthens 10% against other currencies	(2,129)	(1,258)	14,785	1,659
US Dollar strengthens 20% against other currencies	(4,258)	(2,516)	29,571	3,318
US Dollar strengthens 30% against other currencies	(6,387)	(3,773)	44,356	4,976

ii. 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.

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.

The Group's investment strategy reflects the nature of the Group'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 Group believes this gives a better indication than maturity of the likely sensitivity of the Group's investment portfolio to changes in interest rates.

Investments and cash – duration 31 December 2021	<1 yr $'000	1–2 yrs $'000	2–3 yrs $'000	3–4 yrs $'000	4–5 yrs $'000	5–10 yrs $'000	>10 yrs $'000	Non-interest bearing $'000	Total $'000
Variable yield securities	10,520	-	-	-	-	-	-	-	10,520
Debt securities	104,361	107,284	213,780	127,609	125,973	372,958	695,431	-	1,747,396
Other investments	-	-	-	-	-	-	-	61,901	61,901
Total other financial investments	**114,881**	**107,284**	**213,780**	**127,609**	**125,973**	**372,958**	**695,431**	**61,901**	**1,819,817**
Deposits from third parties	49,628	-	-	-	-	-	-	-	49,628
Cash at bank	292,032	-	-	-	-	-	-	-	292,032
Total	**456,541**	**107,284**	**213,780**	**127,609**	**125,973**	**372,958**	**695,431**	**61,901**	**2,161,477**

Investments and cash – duration 31 December 2020	<1 yr $'000	1–2 yrs $'000	2–3 yrs $'000	3–4 yrs $'000	4–5 yrs $'000	5–10 yrs $'000	>10 yrs $'000	N/A $'000	Total $'000
Variable yield securities	82,533	-	-	-	-	-	-	-	82,533
Debt securities	272,300	178,856	138,397	145,129	102,437	361,313	177,824	-	1,376,256
Other investments	-	-	-	-	-	-	-	58,666	58,666
Total other financial investments	**354,833**	**178,856**	**138,397**	**145,129**	**102,437**	**361,313**	**177,824**	**58,666**	**1,517,455**
Deposits from third parties	48,522	-	-	-	-	-	-	-	48,522
Cash at bank	287,283	-	-	-	-	-	-	-	287,283
Total	**690,638**	**178,856**	**138,397**	**145,129**	**102,437**	**361,313**	**177,824**	**58,666**	**1,853,260**

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 Shift in yield (basis points)	Impact on profit after tax 2021 $'000	 2020 $'000	Impact on net assets 2021 $'000	 2020 $'000
100 basis point increase	(84,493)	(64,094)	(84,493)	(64,094)
50 basis point increase	(42,476)	(31,835)	(42,476)	(31,835)
50 basis point decrease	39,946	26,643	39,946	26,643
100 basis point decrease	73,675	45,281	73,675	45,281

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 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 exposures 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 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 the Group's Conduct Risk Policy broadly defines conduct risk as "…the risk that detriment is caused to the Group, our customers, clients or counterparties because of the inappropriate execution of our business activities."

The Group 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 Group 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 Group's compliance function 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 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; and
- financial institutions holding cash.

The Group's core business is to accept 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 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 Group's 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 and collateral is taken to mitigate the Group's credit risk exposure. As at 31 December 2021 US$1,713,000 of collateral was held by the Group. To assist in the understanding of credit risks, A.M. Best, Moody's and Standard & Poor's ('S&P') ratings are used. The Group's concentrations of credit risk have been categorised by these ratings in the following table.

Investments, reinsurance assets and cash – credit ratings 31 December 2021	AAA $'000	AA $'000	A $'000	BBB $'000	BB $'000	Not rated $'000	Total $'000
Variable yield securities	10,520	-	-	-	-	-	10,520
Debt securities	116,434	796,437	526,643	307,882	-	-	1,747,396
Other investments	-	-	-	-	-	61,901	61,901
Total other financial investments	**126,954**	**796,437**	**526,643**	**307,882**	**-**	**61,901**	**1,819,817**
Reinsurers' share of technical provisions	-	461,390	532.015	16,721	-	10,990	1,021,115
Debtors arising out of reinsurance operations	-	122,819	106,323	6,259	-	472	235,874
Cash at bank	292,032	-	-	-	-	-	292,032
Total	**418,986**	**1,380,646**	**1,164,981**	**330,862**	**-**	**73,363**	**3,368,838**

Investments, reinsurance assets and cash – credit ratings 31 December 2020	AAA $'000	AA $'000	A $'000	BBB $'000	BB $'000	Not rated $'000	Total $'000
Variable yield securities	82,533	-	-	-	-	-	82,533
Debt securities	96,867	668,521	428,364	175,667	6,837	-	1,376,256
Other investments	-	-	-	-	-	58,666	58,666
Total other financial investments	**179,400**	**668,521**	**428,364**	**175,667**	**6,837**	**58,666**	**1,517,455**
Reinsurers' share of technical provisions	-	327,942	451,844	3,747	6,398	5	789,936
Debtors arising out of reinsurance operations	-	100,691	114,432	156	2,477	-	217,756
Cash at bank	287,283	-	-	-	-	-	287,283
Total	**466,683**	**1,097,154**	**994,640**	**179,570**	**15,712**	**58,671**	**2,812,430**

The Group's largest counterparty exposure is $234.9m of US Government securities (2020: $221.5m).

An ageing analysis of the Group's insurance and reinsurance receivables that are past due at the reporting date is presented below:

Financial assets – ageing 31 December 2021	Not yet due $'000	Up to 3 months past due $'000	3 – 6 months past due $'000	7 – 12 months past due $'000	> 1 year past due $'000	Total $'000
Reinsurers share of claims outstanding	801,740	-	-	-	-	801,740
Insurance debtors	273,701	58,060	6,734	9,008	3,475	350,978
Reinsurance debtors	213,416	11,391	7,605	2.483	979	235,874
Other debtors	44,649	-	-	-	-	44,649
Total	**1,333,506**	**69,451**	**14,339**	**11,491**	**4,454**	**1,433,241**

Financial assets – ageing 31 December 2020	Not yet due $'000	Up to 3 months past due $'000	3 – 6 months past due $'000	7 – 12 months past due $'000	> 1 year past due $'000	Total $'000
Reinsurers share of claims outstanding	625,898	-	-	-	-	625,898
Insurance debtors	253,961	14,683	8,913	7,489	722	285,768
Reinsurance debtors	183,439	20,923	4,614	4,847	3,933	217,756
Other debtors	37,989	-	-	-	-	37,989
Total	**1,101,287**	**35,606**	**13,527**	**12,336**	**4,655**	**1,167,411**

5.6 Liquidity 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.

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 in Note 5.1.(i). This means that the Group maintains sufficient liquid assets, or assets that can be readily converted into liquid assets at short notice, to meet expected cash flow requirements. The Group can also draw on group funds to bridge short-term cash flow requirements. The following table is an analysis of the net contractual cash flows based on all the liabilities held at 31 December 2021 and 2020:

Financial liabilities – projected cash flows 31 December 2021	Within 1yr $'000	1–3 years $'000	3–5 years $'000	>5 years $'000	Total $'000
Net claims outstanding	295,057	312,294	150,238	152,832	910,421
Creditors from direct insurance operations	39,787	-	-	-	39,787
Creditors from reinsurance operations	270,654	-	-	-	270,654
Other creditors	44,185	-	-	-	44,185
Total	**649,683**	**312,294**	**150,238**	**152,832**	**1,265,047**

Financial liabilities – projected cash flows 31 December 2020	Within 1yr $'000	1–3 years $'000	3–5 years $'000	>5 years $'000	Total $'000
Net claims outstanding	233,143	267,250	133,492	149,169	783,054
Creditors from direct insurance operations	40,500	-	-	-	40,500
Creditors from reinsurance operations	214,670	-	-	-	214,670
Other creditors	49,387	-	-	-	49,387
Total	**537,700**	**267,250**	**133,492**	**149,169**	**1,087,611**

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

Investments and cash – maturity 31 December 2021	Within 1yr $'000	1–3 years $'000	3–5 years $'000	>5 years $'000	N/A $'000	Total $'000
Variable yield securities	10,520	-	-	-	-	10,520
Debt securities	104,361	321,063	253,582	1,068,390	-	1,747,396
Other investments	-	-	-	-	61,901	61,901
Total other financial investments	**114,881**	**321,063**	**253,582**	**1,068,390**	**61,901**	**1,819,817**
Cash at bank	292,032	-	-	-	-	292,032
Total	**406,913**	**321,063**	**253,582**	**1,068,390**	**61,901**	**2,111,849**

Investments and cash – maturity 31 December 2020	Within 1yr $'000	1–3 years $'000	3–5 years $'000	>5 years $'000	No maturity $'000	Total $'000
Variable yield securities	82,533	-	-	-	-	82,533
Debt securities	101,769	215,640	208,245	850,602	-	1,376,256
Other investments	-	-	-	-	58,666	58,666
Total other financial investments	**184,302**	**215,640**	**208,245**	**850,602**	**58,666**	**1,517,455**
Cash at bank	287,283	-	-	-	-	287,283
Total	**471,585**	**215,640**	**208,245**	**850,602**	**58,666**	**1,804,738**

6. Segmental information

(a) Underwriting result by class of business

2021 restated	Gross premiums written $'000	Gross premiums earned $'000	Gross claims incurred $'000	Gross operating expenses $'000	Reinsurance balance $'000	Net underwriting result $'000
Direct insurance						
Accident and health	67,538	61,301	(48,290)	(16,576)	14,063	10,498
Marine, aviation and transport	258,608	226,375	(157,872)	(61,396)	1,396	8,503
Fire and other damage to property	147,216	117,494	(57,434)	(37,913)	(16,688)	5,459
Third party liability	544,833	477,762	(255,494)	(138,919)	38,288	121,637
Credit, political risk and suretyship	222,288	211,188	(51,656)	(75,740)	(22,188)	61,604
Other	28,265	26,002	(32,199)	(17,972)	11,379	(12,790)
Total direct	1,268,748	1,120,122	(602,945)	(348,516)	26,250	194,911
Reinsurance acceptances	**359,727**	**324,808**	**(233,313)**	**(86,113)**	**(29,546)**	**(24,164)**
Total	1,628,475	1,444,930	(836,258)	(434,629)	(3,296)	170,747
Investment return						29,504
Other technical income						16,211
Technical account						**216,462**

2020 restated	Gross premiums written $'000	Gross premiums earned $'000	Gross claims incurred $'000	Gross operating expenses $'000	Reinsurance balance $'000	Net underwriting result $'000
Direct insurance						
Accident and health	63,895	60,989	(34,559)	(20,832)	(10,199)	(4,601)
Marine, aviation and transport	181,495	143,088	(74,007)	(40,693)	(17,661)	10,727
Fire and other damage to property	80,203	61,988	(22,894)	(18,309)	(5,232)	15,553
Third party liability	385,519	352,267	(147,492)	(115,112)	(26,642)	63,021
Credit, political risk and suretyship	190,264	194,651	(49,423)	(68,057)	(36,579)	40,592
Other	20,443	14,347	(117,959)	(14,651)	99,052	(19,211)
Total direct	921,819	827,330	(446,334)	(277,654)	2,739	106,081
Reinsurance acceptances	**273,593**	**252,767**	**(197,760)**	**(78,050)**	**29,154**	**6,111**
Total	1,195,412	1,080,097	(644,094)	(355,704)	31,893	112,192
Investment return						26,265
Other technical income						11,918
Technical account						**150,375**

The reinsurance balance represents the debit/(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/(loss) before taxation		Net assets	
	2021 $'000	2020 $'000	2021 $'000	2020 $'000	2021 $'000	2020 $'000
United Kingdom	1,025,068	833,809	155,910	160,627	921,745	844,545
Rest of Europe	603,407	361,603	10,769	16,253	210,855	160,841
	1,628,475	1,195,412	166,679	176,880	1,132,600	1,005,386

(c) Geographical location of gross premiums written by destination

	2021 $'000	2020 $'000
United Kingdom	718,177	526,427
Rest of Europe	410,506	444,609
Rest of the World	499,792	224,376
	1,628,475	1,195,412

7. Investment return

The Group recorded $3.5m net foreign exchange losses in revaluation of the non-US Dollar investment portfolio (2020: $2.2m gains). Additionally, foreign exchange gains on revaluation of other non-USD Dollar monetary assets and liabilities totalled $17.4m (2020: $7.4m losses).

8. Net operating expenses

	2021 $'000	2020 $'000
Commission costs	264,823	189,407
Change in deferred acquisition costs (Note 21)	(40,424)	(19,152)
Reinsurance commissions and profit participation	**(104,365)**	**(88,555)**
Earned net acquisition costs	120,034	81,700
Administrative expenses	210,230	185,450
	330,264	267,150

Total commission written during the year in respect of direct insurance was $217.9m (2020: $149.7m).

Staff costs

All UK based staff are employed by HCC Service Company Inc. (UK branch), a fellow Tokio Marine subsidiary. The disclosures in the staff costs table 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 Group as a management fee. This staff information is not included in salary costs and average staff numbers as it is not practical to allocate them to the underlying entities to which the staff provide services.

Group	2021 $'000	2020 $'000
Wages and salaries	82,929	67,991
Social security costs	9,927	9,428
Other pension costs	5,489	4,458
	98,345	81,877

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

	2021 Number	2020 Number
Underwriting	368	327
Claims	65	55
Administration and finance	214	206
	647	588

Directors' emoluments

The compensation of executive directors attributable to the Group is charged as a management fee and not included in staff costs.

	2021 $'000	2020 $'000
Aggregate emoluments	6,024	5,731
Pension contributions	6	4
	6,030	5,735

Pension benefits are accruing to one director (2020: one) under the Group's defined contribution pension scheme.

Highest paid director	2021 $'000	2020 $'000
Aggregate emoluments	2,366	2,423
Pension contributions	-	-
	2,366	2,423

9. Auditors' remuneration

During the year, the Group obtained the following services (exclusive of VAT) from HCCII's auditors, PricewaterhouseCoopers LLP:

	2021 $'000	2020 $'000
Fees payable for auditing of the Group and its subsidiaries	1,211	1,030
All audit-related assurance services	194	180
	1,405	1,210

Auditors' remuneration is paid by HCC Service Company Inc. (UK branch) and recharged as appropriate to HCCII and its subsidiaries.

10. Other charges

	2021 $'000	2020 $'000
Covid-19 costs	136	575
Corporate oversight costs	7,755	4,053
Service awards	6,932	2,956
Amortisation of goodwill (Note 13)	6,491	5,727
Amortisation of intangibles (Note 13)	4,832	4,936
Other costs	-	66
	26,146	18,313

Corporate oversight costs represent the recharge of staff and administrative expenses by the service companies within the group. Service awards are mainly payments made to key staff under a long-term incentive scheme.

11. Other technical income

	2021 $'000	2020 $'000
Credit limit notification services fee income	5,634	4,276
GCube commission income	2,151	3,952
Qdos commission and fee income	4,079	2,266
HCCII fee income	1,857	689
TME fee income	2,490	735
Other technical income	16,211	11,918

Other technical income comprises $5.6m (2020: $4.3m) for credit limit notification services conducted for Credit policyholders of HCCII by HCC Credit Services Limited. GCube and Qdos commission is third-party intermediary income. HCCII and TME fee income reflects predominantly fees associated with the Credit and Surety business (and to a lesser extent professional risks) reflecting non-insurance services offered to their customers.

12. Tax on profit on ordinary activities

	2021 $'000	2020 $'000
UK Corporation tax at 19.00% (2020:19.00%)		
Current tax on income for the year	41,588	42,666
Tax in respect of prior years	(1,595)	(2,386)
Current tax charge for the year	**39,993**	**40,280**
Deferred tax – origination and reversal of timing differences	(512)	(6,148)
Tax on profit on ordinary activities	39,481	34,132

The tax assessed for the year is higher (2020: higher) than the standard rate of corporation tax in the UK.

The differences are explained below:

	2021 $'000	2020 $'000
Profit on ordinary activities before taxation	166,679	176,880
Tax on profit on ordinary activities at standard rate of 19.00% (2020: 19.00%)	31,669	33,607
Expenses not deductible for tax purposes	(126)	44
Amortisation of goodwill and intangibles	2,689	1,783
Foreign tax	3,770	3,955
Effect of tax rate changes	-	1,359
Effect of foreign exchange	(176)	174
Tax in respect of prior years	(1,595)	(2,711)
Movement in unrecognised deferred tax asset	3,324	(3,068)
Other	(74)	(1,011)
Tax on profit on ordinary activities	39,481	34,132

13. Goodwill and other intangible assets

	Goodwill $'000	Other intangible assets $'000	Total $'000
Cost			
At 1 January 2021	93,517	87,787	181,304
Addition	-	1,746	1,746
Other changes (see below)	1,900	(1,900)	-
At 31 December 2021	**95,417**	**87,633**	**183,050**
Accumulated amortisation			
At 1 January 2020	14,517	28,035	42,552
Charge for the year	6,491	4,832	11,323
At 31 December 2021	**21,008**	**32,867**	**53,875**
Net			
At 31 December 2021	**74,409**	**54,766**	**129,175**

	Goodwill $'000	Other intangible assets $'000	Total $'000
Cost			
At 1 January 2020	89,994	57,799	147,793
Addition	8,536	29,988	38,524
Other changes (see below)	(5,013)	-	(5,013)
At 31 December 2020	**93,517**	**87,787**	**181,304**
Accumulated amortisation			
At 1 January 2020	8,790	23,099	31,889
Charge for the year	5,727	4,936	10,663
At 31 December 2020	**14,517**	**28,035**	**42,552**
Net			
At 31 December 2020	**79,000**	**59,572**	**138,752**

Goodwill and intangibles arose from the acquisition in 2020 of GCube amounting to $10.5m and $28.5m respectively of which deferred tax is $5.2m. In 2021 the Group finalised the value of intangible assets arising from the acquisition which resulted in a decrease in the value of intangible assets by $1.9m and a consequent increase to the value of goodwill. The carrying values at the end of the year were goodwill of $9.3m (2020: $8.2m) and intangibles of $25.5m (2020: $29.0m).

Goodwill and intangibles arose from the acquisition in 2018 of Qdos Holdings Limited and its subsidiary Qdos Broker and Underwriting Services Limited amounting to $83.3m (2020: $83.3m) and $37.5m (2020: $36.2m), respectively. In the prior year, the amount of goodwill arising from the acquisition of the Qdos group of companies was reduced by $5.0m reflecting an adjustment to the deferred consideration element of the final purchase price in June 2020. The carrying values at the end of the year were goodwill of $65.1m (2020: $70.7m) and intangibles of $29.2m (2020: $30.8m).

In addition, Goodwill and intangibles of $1.6m (2020: $1.6m) and $21.6m (2020: $21.6m) arose on the acquisition in 2006 of Manchester Dickson Holdings Limited and its subsidiaries. The carrying values at the end of the year were goodwill of $nil (2020: $0.1m) and intangibles of $nil (2020: $nil).

14. Other financial investments

	Fair value 2021 $'000	Fair value 2020 $'000	Book cost 2021 $'000	Book cost 2020 $'000
Variable yield securities and units in unit trusts	10,520	82,533	10,520	82,533
Debt securities and other fixed-income securities	1,747,396	1,376,256	1,718,958	1,285,913
Other investments	61,901	58,666	47,880	50,810
	1,819,817	**1,517,455**	**1,777,358**	**1,419,256**

Debt securities and other fixed-income securities comprise listed investments. Other investments is an investment in a private equity fund. The private equity fund investment is carried at the net asset value of the fund. Changes in the net asset value are included in investment income.

15. Fair value estimation

The following table presents the Group's financial investments measured at fair value at 31 December 2021 and 31 December 2020 categorised into levels 1, 2 and 3, reflecting the categorisation criteria specified in FRS 102 (s34.22). No liabilities were measured at fair value at 31 December 2021 or at 31 December 2020.

Financial investments – pricing basis	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
31 December 2021				
Variable yield securities	-	10,520	-	10,520
Debt securities	-	1,747,396	-	1,747,396
Other investments	-	-	61,901	61,901
Total other financial investments	**-**	**1,757,916**	**61,901**	**1,819,817**

Financial investments – pricing basis	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
31 December 2020				
Variable yield securities	-	82,533	-	82,533
Debt securities	-	1,376,256	-	1,376,256
Other investments	-	-	58,666	58,666
Total other financial investments	**-**	**1,458,789**	**58,666**	**1,517,455**

FRS 102 defines the disclosure of investments levels as follows:

- **Level 1 –** Inputs are based on quoted prices in active markets;

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

- **Level 2 –** Recent transactions in an identical or similar asset in the absence of quoted prices in active markets at the balance sheet date or are derived from or corroborated by observable market data;

  The Group's Level 2 investments include 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 Group 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 Group measures fair value for its structured securities using observable market data in cash flow models.

  The Group is responsible for the prices used in its fair value measurements and 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 Group uses data provided by the Group's third-party investment managers to value its Level 2 investments. To validate that these quoted prices are reasonable estimates of fair value, the Group performs various quantitative and qualitative procedures, including:

  1. evaluation of the underlying methodologies;
  2. analysis of recent sales activity;
  3. analytical review of the Group'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 Group's investments were judged to be inactive at period end. Based on these procedures, the Group did not adjust the prices or quotes provided by its independent pricing services, third-party investment managers as of 31 December 2020 or at 31 December 2019.

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

  These comprise financial instruments where it is determined that there is no active market or that the application of criteria to demonstrate such are Level 2 securities is impractical. That fair value is established through the use of a valuation technique which incorporates relevant information to reflect appropriate adjustments for credit and liquidity risks and maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. The relative weightings given to differing sources of information and the determination of non-observable inputs to valuation models can require the exercise of significant judgement. The Group has Level 3 securities in the form of investment in a private equity fund. The private equity fund is carried at net asset value. Changes in the net asset value are included in investment income.

16. Other debtors

	2021 $'000	2020 $'000
Claims funds	16,183	9,553
Other debtors	8,374	6,283
Amounts owed by group companies	20,092	22,153
	44,649	**37,989**

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.

17. Tangible assets

	Leasehold improvements $'000	Owner occupied land and buildings $'000	Computer equipment $'000	Fixtures, fittings and office equipment $'000	Total $'000
Book cost					
At 1 January 2021	2,631	5,995	428	3,613	12,667
Additions	179	-	-	742	921
At 31 December 2021	**2,810**	**5,995**	**428**	**4,355**	**13,588**
Accumulated depreciation					
At 1 January 2021	1,788	1,249	320	2,633	5,990
Charge for the year	109	182	49	156	496
At 31 December 2021	**1,897**	**1,431**	**369**	**2,789**	**6,486**
Net book value					
31 December 2021	**913**	**4,564**	**59**	**1,566**	**7,102**

Land and buildings are occupied by the Group for its own use and are being depreciated over 50 years through to June 2045.

	Leasehold improvements $'000	Owner occupied land and buildings $'000	Computer equipment $'000	Fixtures, fittings and office equipment $'000	Total $'000
Book cost					
At 1 January 2020	1,886	3,848	332	3,133	9,199
Additions	745	2,147	96	480	3,468
At 31 December 2020	**2,631**	**5,995**	**428**	**3,613**	**12,667**
Accumulated depreciation					
At 1 January 2020	1,743	1,137	289	2,525	5,694
Charge for the year	45	112	31	108	296
At 31 December 2020	**1,788**	**1,249**	**320**	**2,633**	**5,990**
Net book value					
31 December 2020	**843**	**4,746**	**108**	**980**	**6,677**

18. Called up share capital – Group and HCCII

Allotted and fully paid ordinary shares	2021 Number of shares	2021 $'000	2020 Number of shares	2020 $'000
Balance brought forward:				
- Ordinary shares of £1 each	96,047,813	163,045	96,047,813	163,045
- Ordinary shares of $1 each	70,197,001	70,197	70,197,001	70,197
Balance carried forward	**166,244,814**	**233,242**	**166,244,814**	**233,242**

The £1 ordinary shares (2020: £1 ordinary shares) are translated to US Dollars at the rates of exchange ruling on the dates the shares were issued.

The Directors recommend a final dividend of 69 US Cents per ordinary share for the year ended 31 December 2021. Subject to approval by shareholders of the recommended final dividend, the dividend to shareholders for 2021 will total $115 million (2020: $nil). If approved, HCCII will pay the final dividend on 17 June 2022 to shareholders on the register of members at 11 April 2022.

19. Other creditors including taxation and social security

	2021 $'000	2020 $'000
Corporation tax	10,023	12,793
Net deferred tax liability	11,275	9,683
Other creditors	6,343	2,643
Amounts owed to affiliate companies	16,544	24,268
	44,185	**49,387**

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

Net deferred tax liability	2021 $'000	2020 $'000
At 1 January – net deferred tax liability	9,683	13,189
Changes in accelerated capital allowances	51	(80)
Intangible asset	(666)	4,686
Deferred taxation of release of Equalisation provision	(2,273)	(1,984)
Technical reserves	(1,197)	(1,115)
Short-term timing differences	403	(1,945)
Losses carried forward	2,963	(3,068)
Change in UK corporation tax rate	2,311	-
At 31 December – net deferred tax liability	**11,275**	**9,683**

The net deferred tax liability consists of the following amounts:

	2021 $'000	2020 $'000
Accelerated capital allowances	196	145
Intangible assets	10,983	9,338
Technical reserves	(182)	1,015
Short-term timing differences	(384)	(787)
Deferred taxation for release of Equalisation provision	767	3,040
Losses carried forward	(105)	(3,068)
Net deferred tax liability	**11,275**	**9,683**

In the Spring Budget 2021, the Government announced that from 1 April 2023 the corporation tax rate would increase to 25% from 19%. As the proposal had been substantively enacted at the balance sheet date, its effects are included in these financial statements.

A potential deferred tax asset of $24.1m (2020: $19.3m) in respect of certain unutilised tax losses has not been recognised as there is insufficient evidence that it will be recoverable. This asset would be recovered should sufficient taxable profits be generated in future which would be eligible for relief against the unutilised tax losses.

20. Technical provisions – Group

	Provisions for unearned premiums $'000	Claims outstanding (1) $'000	Deferred acquisition costs (2) $'000	Net technical liabilities $'000
Gross of reinsurance				
At 1 January 2021	558,907	1,408,952	(102,264)	1,865,595
Movement in provision	183,545	356,854	(40,424)	499,975
Exchange adjustments	(35,102)	(53,645)	9,729	(79,018)
At 31 December 2021	**707,350**	**1,712,161**	**(132,959)**	**2,286,552**
Reinsurance				
At 1 January 2021	(164,038)	(625,898)	40,004	(749,932)
Movement in provision	(68,112)	(200,205)	18,271	(250,046)
Exchange adjustments	12,775	24,363	(4,431)	32,707
At 31 December 2021	**(219,375)**	**(801,470)**	**53,844**	**(967,271)**
Net				
At 31 December 2021	**487,975**	**910,421**	**(79,115)**	**1,319,281**

(1) Claims outstanding includes claims incurred but not reported ('IBNR') reserves of $963.1m gross of reinsurance and $434.8m reinsurer's share of IBNR reserves (2020: $761.1m gross; $307.0m reinsurer's share).

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

	Provisions for unearned premiums $'000	Claims outstanding (1) $'000	Deferred acquisition costs (2) $'000	Net technical liabilities $'000
Gross of reinsurance				
At 1 January 2020	424,012	1,106,565	(77,517)	1,453,060
Movement in provision	115,315	227,355	(19,152)	323,518
Exchange adjustments	19,580	75,032	(5,595)	89,017
At 31 December 2020	**558,907**	**1,408,952**	**(102,264)**	**1,865,595**
Reinsurance				
At 1 January 2020	(114,832)	(466,344)	32,357	(548,819)
Movement in provision	(42,931)	(125,491)	4,544	(163,878)
Exchange adjustments	(6,275)	(34,063)	3,103	(37,235)
At 31 December 2020	**(164,038)**	**(625,898)**	**40,004**	**(749,932)**
Net				
At 31 December 2020	**394,869**	**783,054**	**(62,260)**	**1,115,663**

21. Reconciliation of profit before tax to net cash inflow from operating activities

	2021 $'000	2020 $'000
Profit before tax	166,679	176,880
Adjustments for:		
Non-cash movements in profit for the year		
Amortisation of goodwill	6,491	5,727
Amortisation of other intangibles	4,832	4,936
Depreciation of tangible fixed assets	496	296
Realised and unrealised investment losses/(gains)	36,359	(50,877)
Other non-cash movement including foreign exchange losses	16	1,332
Investment income from participating interests and other financial Investments and income	(30,741)	(27,693)
Changes in operating assets/liabilities		
Increase in debtors, prepayments and accrued income	(122,382)	(121,973)
Increase in creditors, accruals and deferred income	74,938	72,423
Increase in net technical provisions	220,473	228,522
(Decrease)/increase in deposits with ceding undertakings	(1,106)	4,945
Cash generated from operations	**356,055**	**294,518**
Interest received	30,741	27,693
Cash flows from purchases and sales of financial investments	(338,721)	(123,045)
Net cash Inflow from operating activities	**48,075**	**199,166**

22. Commitments

a. Capital commitments

As at 31 December 2021, the Group and HCCII have total non-cancellable commitments of $6.1m in relation to acquisition of intangibles.

b. Other commitments

c. Operating lease commitments

The Group leases various offices, as a lessee, under operating lease agreements. The Group is required to give notice for the termination of these agreements. The lease expenditure charged to the consolidated profit and loss account during the year is $5.4m (2020: $5.3m).

The future aggregate minimum lease payments under the non-cancellable portion of the Group's operating leases are as follows:

	2021 $'000	2020 $'000
Not later than 1 year	6,471	5,433
Later than one year and not later than 5 years	13,376	14,465
Later than 5 years	1,391	2,308
	21,238	**22,206**

23. Related party transactions

Parental Guarantee

The Group benefits from a parental guarantee from Houston Casualty Company, a subsidiary of HCC Insurance Holdings, Inc., guaranteeing the payment of all policyholder obligations of the Group in the event of the Group being unable to pay.

Shared Reinsurance Programme

The Group shares a reinsurance programme with the other Tokio Marine HCC International entities. Reinsurance premiums and recoveries are pro-rated across Tokio Marine HCC International entities according to their respective underlying risks and claims experience. Cash settlements with respect to the shared reinsurance programme are cleared through HCCII and settled on a monthly basis with the appropriate entity. The table below represents the reinsurance premium settled by HCCII on behalf of related parties and the net receivable balance due to HCCII in relation to the shared reinsurance programme.

Related party	Nature of Contract	2021 Closing balance $'000	2020 Closing balance $'000
Houston Casualty Co London	Excess of loss and Quota share	4,698	(10,775)
Syndicate 4141	Excess of loss and Quota share	29,135	53,880
		33,833	**43,105**

Intra-group reinsurance contracts

The Group enters into a number of inwards and outwards reinsurance contracts with other Group companies. The tables below provide detail of the nature of the contracts, the premium and the closing balance.

Related party – inward reinsurance	Nature of Contract	2021 Gross premium $'000	2021 Closing balance $'000	2020 Gross premium $'000	2020 Closing balance $'000
Tokio Marine Insurance Singapore	Inwards reinsurance	8,505	(232)	8,979	3,518
Tokio Marine & Nichido Fire Insurance Co. Ltd.	Inwards reinsurance	7,487	3,309	4,152	2,986
Tokio Marine Kiln Group Limited	Inwards reinsurance	636	86	-	-
		16,628	3,163	13,131	6,504

Related party – outward reinsurance	Nature of Contract	2021 RI premium $'000	2021 Closing balance $'000	2020 RI premium $'000	2020 Closing balance $'000
Tokio Marine & Nichido Fire Insurance Co. Ltd.	Outwards reinsurance	200,187	76,738	150,799	75,774
Lloyd's Syndicate 510	Outwards reinsurance	4,681	2,313	9,524	4,108
Houston Casualty Company	Outwards reinsurance	-	4,672	-	(95)
Tokio Marine Kiln Insurance Limited	Outwards reinsurance	(2,196)	290	10,297	1,231
		202,672	84,013	170,620	81,018

Agency commission

The Group delegates underwriting authorities to a number of agencies within the wider Tokio Marine for which it pays a commission. These are detailed in the table below.

Related party	Nature of Contract	2021 Commission $'000	2021 Closing balance $'000	2020 Commission $'000	2020 Closing balance $'000
HCC Specialty Ltd	Underwriting agency	3,625	(3,917)	3,999	(3,060)

Group services administration

The Group has entered into a shared services arrangement with HCC Service Company Inc. (UK Branch) for the provision of central administrative services. These are detailed in the table below.

Related party	Nature of Contract	2021 Expenses incurred $'000	2021 Closing balance $'000	2020 Expenses incurred $'000	2020 Closing balance $'000
HCC Service Company Inc. (UK branch)	Provision of central administrative services	90,929	(13,776)	80,713	(127)

Other related party balances

The following table shows the balances outstanding at the end of the year between the Group and fellow affiliates of the Tokio Marine. The balances have arisen in the normal course of business.

Related party	2021 $'000	2020 $'000
HCC Insurance Holdings, Inc	840	840
HCC Service Company, Inc.	(2,409)	(1,538)
U.S. Specialty Insurance Co	40	41
NameCo (No. 808) Ltd.	2,737	-
HCC Reinsurance Company Ltd	17	17
HCC Underwriting Agency Ltd.	46	(11)
Radius Underwriting Ltd	-	14
Rattner Mackenzie Limited	-	(1,750)
HCC Re Agency	220	259
Total	**1,491**	**(2,128)**

Key management compensation

The key management of the Group are considered to be the statutory directors of HCCII. Note 8, Net operating expenses, gives details of their compensation as directors of HCCII.

24. Ultimate parent company and controlling party

The Group'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/.

HCCII's immediate parent company is Tokio Marine HCC Insurance Holdings (International) Limited which is incorporated in England and has a head office in 1 Aldgate, London, EC3N 1RE.

25. Post balance sheet events

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

Company Balance Sheet

As at 31 December 2021

ASSETS	Note	2021 $'000	2020 $'000
Intangible assets			
Goodwill	3	-	1,545
Investments			
Land and buildings		239	239
Investment in subsidiary undertakings	4	407,319	360,002
Other financial investments	5	1,572,767	1,292,296
		1,980,325	1,652,537
Reinsurers' share of technical provisions			
Provision for unearned premiums	9	121,001	84,802
Claims outstanding	9	335,123	274,131
		456,124	358,933
Debtors			
Debtors arising out of direct insurance operations			
- Policyholders		44,266	36,356
- Intermediaries		149,620	112,709
Debtors arising out of reinsurance operations		153,631	135,343
Other debtors	6	29,999	98,988
		377,516	383,396
Other assets			
Tangible assets	7	5,065	4,641
Deposits from third parties		43,838	42,420
Cash at bank and in hand		154,296	130,245
		203,199	177,306
Prepayments and accrued income			
Accrued interest and rent		9,257	7,768
Deferred acquisition costs	9	113,782	87,956
		123,039	95,724
Total assets		**3,140,203**	**2,669,441**

Company Balance Sheet

As at 31 December 2021

LIABILITIES	Note	2021 $'000	2020 $'000
Capital and reserves			
Called up share capital	18	233,242	233,242
Share premium		19,115	19,115
Revaluation reserve		17,919	20,597
Profit and loss account		914,582	769,682
Total shareholders' funds		1,184,858	1,042,636
Technical provisions			
Provision for unearned premiums	9	525,326	409,043
Claims outstanding	9	1,127,158	954,859
		1,652,484	1,363,902
Creditors – amounts due within one year			
Creditors arising out of direct insurance operations		15,394	9,259
Creditors arising out of reinsurance operations		130,579	84,250
Other creditors including taxation and social security	8	41,288	76,119
Deposits from third parties		43,836	42,420
		231,097	212,048
Accruals and deferred income			
Accruals		42,965	32,131
Deferred acquisition costs arising out of reinsurance operations	9	28,799	18,724
		71,764	50,855
Total liabilities		**3,140,203**	**2,669,441**

In accordance with the exemption permitted under section 408 of the Companies Act 2006, the Company profit or loss account, and Company statement of other comprehensive income are not presented as part of these financial statements. The Company's profit after taxation for the year was $144.9 million (2020: $139.1 million profit).

Company Statement of Changes in Shareholders' Equity

For the year ended 31 December 2021

Capital and reserves	Called up share capital $'000	Share premium $'000	Revaluation reserve $'000	Profit and loss account $'000	Total shareholders' equity $'000
At 1 January 2021	233,242	19,115	20,597	769,682	1,042,636
Profit for the financial year	-	-	-	144,900	144,900
Revaluation of subsidiary undertakings	-	-	(2,678)	-	(2,678)
At 31 December 2020	233,242	19,115	17,919	914,582	1,184,858

Capital and reserves	Called up share capital $'000	Share premium $'000	Revaluation reserve $'000	Profit and loss account $'000	Total shareholders' equity $'000
At 1 January 2020	233,242	19,115	6,406	630,544	889,307
Profit for the financial year	-	-	-	139,138	139,138
Revaluation of subsidiary undertakings	-	-	14,191	-	14,191
At 31 December 2020	233,242	19,115	20,597	769,682	1,042,636

Notes to the Company Financial Statements

1. Summary of significant accounting policies

The accounting policies that are used in preparation of these Company financial statements are consistent with the accounting policies used in the preparation of the consolidated financial statements of the Group as set out in those financial statements. This includes the Group policies on critical accounting judgements and key sources of estimation uncertainty.

The additional accounting policies that are specific to the separate Company financial statements are set out below:

A. Basis of Preparation

The individual financial statements of the Company ('HCCII') 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.

In accordance with the exemption permitted under section 408 of the Companies Act 2006, the Company profit or loss account, and Company statement of other comprehensive income are not presented as part of these financial statements.

B. Exemptions for qualifying entities under FRS 102

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

i. From preparing a statement of cash flows, on the basis that it is a qualifying entity and the consolidated statement of cash flows, included in these financial statements, includes the Company's cash flows;

ii. Related party disclosures, and

iii. From disclosing key management personnel compensation, as required by FRS 102 paragraph 33.7.

C. 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 and revaluation reserve, or, if an impairment expense, through the profit and loss account.

2. Risk management

The sections below present tables specific to the HCCII's risk management. Refer to the risk management note to the consolidated financial statements for further information regarding these tables.

2.1 Insurance risk

Reserving risk

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

	Accident year									
Loss development triangles – GROSS Ultimate claims and cumulative payments	**2013 $'000**	**2014 $'000**	**2015 $'000**	**2016 $'000**	**2017 $'000**	**2018 $'000**	**2019 $'000**	**2020 $'000**	**2021 $'000**	**Total $'000**
End of reporting year	196,176	167,117	193,661	269,155	264,729	291,204	363,143	370,221	416,457	
- one year later	208,869	173,530	225,682	270,251	263,645	294,851	421,622	421,000		
- two years later	208,829	145,634	246,036	263,575	260,381	293,510	430,636			
- three years later	190,004	145,428	235,684	304,902	288,577	296,696				
- four years later	178,162	144,328	241,323	304,477	259,701					
- five years later	177,137	149,564	220,937	321,807						
- six years later	167,991	152,740	225,977							
- seven years later	164,642	153,121								
- eight years later	165,260									
Current estimate of ultimate claims	165,260	153,121	225,977	321,807	259,701	296,696	430,636	421,000	416,457	
Cumulative payments to date	155,384	139,004	197,795	269,084	229,630	204,900	217,479	157,892	37,892	
Liability recognised in the balance sheet	9,876	14,117	28,182	52,723	30,071	91,796	213,157	263,108	378,565	1,081,595
Provision in respect of previous years										45,563
Total provision included in the balance sheet										**1,127,158**

	Accident year									
Loss development triangles – NET Ultimate claims and cumulative payments	**2013 $'000**	**2014 $'000**	**2015 $'000**	**2016 $'000**	**2017 $'000**	**2018 $'000**	**2019 $'000**	**2020 $'000**	**2021 $'000**	**Total $'000**
End of reporting year	171,369	132,093	155,065	203,807	210,255	240,257	298,147	276,312	321,448	
- one year later	177,448	138,172	179,377	228,600	241,497	263,844	334,412	330,307		
- two years later	183,719	117,743	193,931	225,245	236,834	275,106	330,823			
- three years later	178,855	123,660	197,104	274,109	263,950	280,832				
- four years later	175,644	125,586	223,957	279,615	246,146					
- five years later	176,794	139,751	212,489	312,122						
- six years later	169,521	146,250	222,558							
- seven years later	170,940	152,238								
- eight years later	170,397									
Current estimate of ultimate claims	170,397	152,238	222,558	312,122	246,146	280,832	330,823	330,307	321,448	
Cumulative payments to date	155,384	139,003	197,795	269,084	229,630	204,900	217,479	157,893	37,892	
Liability recognised in the balance sheet	15,013	13,235	24,763	43,038	16,516	75,932	113,344	172,414	283,556	757,811
Provision in respect of previous years										34,224
Total provision included in the balance sheet										**792,035**

2.2 Market risk

i. Foreign exchange risk

The following table summarises the carrying value of total assets and total liabilities, converted to US Dollars, categorized by HCCII's main currencies.

FX risk exposure 31 December 2021	**AUD $ $'000**	**CAD $ $'000**	**CHF Fr $'000**	**EUR € $'000**	**GBP £ $'000**	**Subtotal $'000**	**USD $ $'000**	**Total $'000**
Total assets	103,357	12,815	45,896	189,820	814,654	**1,166,542**	1,973,661	**3,140,203**
Total liabilities	**(119,079)**	**(11,376)**	**(40,365)**	**(247,106)**	**(819,230)**	**(1,237,156)**	**(718,189)**	**(1,955,345)**
Net assets	**(15,722)**	**1,439**	**5,531**	**(57,286)**	**(4,576)**	**(70,614)**	**1,255,472**	**1,184,858**

FX risk exposure 31 December 2020	**AUD $ $'000**	**CAD $ $'000**	**CHF Fr $'000**	**EUR € $'000**	**GBP £ $'000**	**Subtotal $'000**	**USD $ $'000**	**Total $'000**
Total assets	70,160	6,029	38,318	235,746	692,085	**1,042,338**	1,627,103	**2,669,441**
Total liabilities	**(85,203)**	**(4,326)**	**(38,895)**	**(216,069)**	**(667,332)**	**(1,011,825)**	**(614,980)**	**(1,626,805)**
Net assets	**(15,043)**	**1,703**	**(577)**	**19,677**	**24,753**	**30,513**	**1,012,123**	**1,042,636**

Sensitivity analysis

Fluctuations in HCCII's operating currencies against US Dollars, with everything else staying the same, would result in a change to net asset value. The table below gives an indication of the impact on 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 Change in exchange rate of Canadian Dollar, Australian Dollar, Swiss Franc, Euro and Sterling, relative to US Dollar	Impact on profit after tax 2021 $'000	 2020 $'000	Impact on net assets 2021 $'000	 2020 $'000
US Dollar weakens 30% against other currencies	7,830	1,531	(21,184)	9,154
US Dollar weakens 20% against other currencies	5,220	1,021	(14,123)	6,103
US Dollar weakens 10% against other currencies	2,610	510	(7,061)	3,051
US Dollar strengthens 10% against other currencies	(2,610)	(510)	7,061	(3,051)
US Dollar strengthens 20% against other currencies	(5,220)	(1,021)	14,123	(6,103)
US Dollar strengthens 30% against other currencies	(7,830)	(1,531)	21,184	(9,154)

ii. Interest rate risk

The following table shows the average duration at the reporting date of the financial instruments that are exposed to movements in market interest rates.

Investments and cash – duration 31 December 2021	<1 yr $'000	1–2 yrs $'000	2–3 yrs $'000	3–4 yrs $'000	4–5 yrs $'000	5–10 yrs $'000	>10 yrs $'000	Non-interest bearing $'000	Total $'000
Variable yield securities	8,610	-	-	-	-	-	-	-	8,610
Debt securities	124,304	128,230	233,984	273,835	192,714	400,489	148,700	-	1,502,256
Other investments	-	-	-	-	-	-	-	61,901	61,901
Total other financial investments	**132,914**	**128,230**	**233,984**	**273,835**	**192,714**	**400,489**	**148,700**	**61,901**	**1,572,767**
Deposits from third parties	43,838	-	-	-	-	-	-	-	43,838
Cash at bank	154,296	-	-	-	-	-	-	-	154,296
Total	**331,048**	**128,230**	**233,984**	**273,835**	**192,714**	**400,489**	**148,700**	**61,901**	**1,770,901**

Investments and cash – duration 31 December 2020	<1 yr $'000	1–2 yrs $'000	2–3 yrs $'000	3–4 yrs $'000	4–5 yrs $'000	5–10 yrs $'000	>10 yrs $'000	Non-interest bearing $'000	Total $'000
Variable yield securities	82,164	-	-	-	-	-	-	-	82,164
Debt securities	231,770	158,315	104,156	120,111	83,672	304,131	149,311	-	1,151,466
Other investments	-	-	-	-	-	-	-	58,666	58,666
Total other financial investments	**313,934**	**158,315**	**104,156**	**120,111**	**83,672**	**304,131**	**149,311**	**58,666**	**1,292,296**
Deposits from third parties	42,420	-	-	-	-	-	-	-	42,420
Cash at bank	130,245	-	-	-	-	-	-	-	130,245
Total	**486,599**	**158,315**	**104,156**	**120,111**	**83,672**	**304,131**	**149,311**	**58,666**	**1,464,961**

Sensitivity analysis

Changes in interest yields, with all other variables constant, would result in changes in the market value of debt securities. This would affect net assets as indicated in the table below:

Investments and cash – interest rate sensitivity Shift in yield (basis points)	Impact on profit after tax 2021 $'000	 2020 $'000	Impact on net assets 2021 $'000	 2020 $'000
100 basis point increase	(73,999)	(53,601)	(73,999)	(53,601)
50 basis point increase	(37,208)	(26,567)	(37,208)	(26,567)
50 basis point decrease	35,576	22,274	35,576	22,274
100 basis point decrease	66,405	38,011	66,405	38,011

2.3 Credit risk

HCCII's concentrations of credit risk have been categorised by these ratings in the following table.

Investments, reinsurance assets and cash – credit ratings 31 December 2021	AAA $'000	AA $'000	A $'000	BBB $'000	BB $'000	Not rated $'000	Total $'000
Variable yield securities	8,610	-	-	-	-	-	8,610
Debt securities	107,224	719,739	409,213	266,080	-	-	1,502,256
Other investments	-	-	-	-	-	61,901	61,901
Total other financial investments	**115,834**	**719,739**	**409,213**	**266,080**	**-**	**61,901**	**1,572,767**
Reinsurers' share of technical provisions	-	208,827	234,671	7,776	4,850	-	456,124
Debtors arising out of reinsurance operations	-	79,995	69,251	4,077	308	-	153,631
Cash at bank	154,296	-	-	-	-	-	154,296
Total	**270,130**	**1,008,561**	**713,135**	**277,933**	**5,158**	**61,901**	**2,336,818**

Investments, reinsurance assets and cash – credit ratings 31 December 2020	AAA $'000	AA $'000	A $'000	BBB $'000	BB $'000	Not rated $'000	Total $'000
Variable yield securities	82,164	-	-	-	-	-	82,164
Debt securities	87,474	586,718	317,119	153,774	6,381	-	1,151,466
Other investments	-	-	-	-	-	58,666	58,666
Total other financial investments	**169,638**	**586,718**	**317,119**	**153,774**	**6,381**	**58,666**	**1,292,296**
Reinsurers' share of technical provisions	-	149,604	204,711	1,705	2,913	-	358,933
Debtors arising out of reinsurance operations	-	62,583	71,124	97	1,539	-	135,343
Cash at bank	130,245	-	-	-	-	-	130,245
Total	**299,883**	**798,905**	**592,954**	**155,576**	**10,833**	**58,666**	**1,916,817**

HCCII's largest counterparty exposure is $234.9m of US Government securities (2020: $221.5m).

An ageing analysis of HCCII's insurance and reinsurance receivables that are past due at the reporting date is presented below:

Financial assets – ageing 31 December 2021	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	335,123	-	-	-	-	335,123
Insurance debtors	171,640	13,500	3,679	2,805	2,262	193,886
Reinsurance debtors	134,073	9,197	7,117	2,318	926	153,631
Other debtors	29,999	-	-	-	-	29,999
Total	**670,835**	**22,697**	**10,796**	**5,123**	**3,188**	**712,639**

Financial assets – ageing 31 December 2020	Not yet due $'000	Up to 3 months past due $'000	3 to 6 months past due $'000	7 to 12 months past due $'000	> 1 year past due $'000	Total $'000
Reinsurers share of claims outstanding	274,131	-	-	-	-	274,131
Insurance debtors	135,929	9,208	2,430	1,039	459	149,065
Reinsurance debtors	115,321	11,025	2,191	3,185	3,621	135,343
Other debtors	98,988	-	-	-	-	98,988
Total	**624,369**	**20,233**	**4,621**	**4,224**	**4,080**	**657,527**

Fair value estimation

The following table presents the HCCII's financial investments measured at fair value at 31 December 2021 and 31 December 2020 categorised into levels 1, 2 and 3, reflecting the categorisation criteria specified in FRS 102 (s34.22). No liabilities were measured at fair value at 31 December 2021 or 31 December 2020.

Financial investments – pricing basis	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
31 December 2021				
Variable yield securities	-	8,610	-	8,610
Debt securities	-	1,502,256	-	1,502,256
Other investments	-	-	61,901	61,901
Total other financial investments	**-**	**1,510,866**	**61,901**	**1,572,767**

Financial investments – pricing basis	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
31 December 2020				
Variable yield securities	-	82,164	-	82,164
Debt securities	-	1,151,466	-	1,151,466
Other investments	-	-	58,666	58,666
Total other financial investments	**-**	**1,233,630**	**58,666**	**1,292,296**

2.4 Liquidity risk

The following table is an analysis of the net contractual cash flows based on all the liabilities held at 31 December 2021 and 2020:

Financial liabilities – projected cash flows 31 December 2021	Within 1yr $'000	1-3 years $'000	3-5 years $'000	>5 years $'000	Total $'000
Net claims outstanding	242,096	271,811	135,734	142,394	792,035
Creditors from direct insurance operations	15,394	-	-	-	15,394
Creditors from reinsurance operations	130,579	-	-	-	130,579
Other creditors	41,288	-	-	-	41,288
Total	**429,357**	**271,811**	**135,734**	**142,394**	**979,296**

Financial liabilities – projected cash flows 31 December 2020	Within 1yr $'000	1-3 years $'000	3-5 years $'000	>5 years $'000	Total $'000
Net claims outstanding	202,677	232,326	116,048	129,677	680,728
Creditors from direct insurance operations	9,259	-	-	-	9,259
Creditors from reinsurance operations	84,250	-	-	-	84,250
Other creditors	76,119	-	-	-	76,119
Total	**372,305**	**232,326**	**116,048**	**129,677**	**850,356**

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

Investments and cash – maturity 31 December 2021	Within 1yr $'000	1-3 years $'000	3-5 years $'000	>5 years $'000	N/A $'000	Total $'000
Variable yield securities	8,610	-	-	-	-	8,610
Debt securities	92,565	262,500	217,226	929,965	-	1,502,256
Other investments	-	-	-	-	61,901	61,901
Total other financial investments	**101,175**	**262,500**	**217,226**	**929,965**	**61,901**	**1,572,767**
Cash at bank	154,296	-	-	-	-	154,296
Total	**255,471**	**262,500**	**217,226**	**929,965**	**61,901**	**1,727,063**

Investments and cash – maturity 31 December 2020	Within 1yr $'000	1-3 years $'000	3-5 years $'000	>5 years $'000	N/A $'000	Total $'000
Variable yield securities	82,164	-	-	-	-	82,164
Debt securities	86,969	174,547	171,102	718,848	-	1,151,466
Other investments	-	-	-	-	58,666	58,666
Total other financial investments	**169,133**	**174,547**	**171,102**	**718,848**	**58,666**	**1,292,296**
Cash at bank	130,245	-	-	-	-	130,245
Total	**299,378**	**174,547**	**171,102**	**718,848**	**58,666**	**1,422,541**

3. Goodwill

	2021 $'000	2020 $'000
Cost		
At 1 January	23,176	23,176
At 31 December	23,176	23,176
Accumulated amortisation		
At 1 January	21,631	20,086
Amortisation charge for the year	1,545	1,545
At 31 December	23,176	21,631
Net book value		
At 31 December	-	1,545

The goodwill arose on the purchase of a book of Professional Indemnity business from a group company in 2006 and recognised at the acquisition date and is amortised over a 15-year period.

4. Investment in subsidiary undertakings

Set out below are HCCII's subsidiaries, as at 31 December 2021, with details of the percentages of nominal value and voting rights held by HCCII. The movement in the revaluation of subsidiary undertakings is summarised below:

	2021 $'000	2020 $'000
At 1 January	360,002	287,856
Investment in subsidiary undertaking	50,000	20,000
GCube acquisition (Note 14)	-	42,979
Qdos adjustment (Note 13)	-	(5,013)
Revaluation of subsidiary undertakings	(1,542)	14,488
Foreign exchange impact on translation to closing rate	(1,141)	(308)
At 31 December	**407,319**	**360,002**

HCCII invested an additional $50m of share capital into TME during December 2021.

The directors believe that the carrying value of HCCII's investment in subsidiary undertakings is supported by the underlying net assets. Investment in subsidiary undertakings, as listed, comprises its equity holdings at current net asset value, less any impairment.

Name	Address of the registered office	Principal activity	Class of shares	Effective %
HCCI Credit Services Limited	The Grange, Rearsby, Leicester, LE7 4FY, UK	Information services provider	Ordinary	100%
Tokio Marine Europe S.A. (incorporated in Luxembourg)	33, Rue Sainte Zithe, L-2763, Luxembourg	Insurance company	Ordinary	100%
Qdos Broker and Underwriting Services Limited	The Grange, Rearsby, Leicester, England, LE7 4FY	Insurance intermediary	Ordinary	100%
Qdos Holdings Limited	The Grange, Rearsby, Leicester, England, LE7 4FY	Holding company	Ordinary	100%
GCube Underwriting Limited	155 Fenchurch Street, London, EC3M 6AL	Managing General Agency	Ordinary	100%
Renewable Energy Loss Adjusters Limited	155 Fenchurch Street, London, EC3M 6AL	Loss adjusters	Ordinary	100%
HCC Diversificación y Soluciones S.L. (incorporated in Spain)	13, Torre Diagonal Mar B1, Carrer de Josep Pla, 2, 08019 Barcelona, Spain	Administration services	Ordinary	100%

5. Other financial investments

	Fair value		Book cost	
	2021 $'000	2020 $'000	2021 $'000	2020 $'000
Variable yield securities and units in unit trusts	8,610	82,164	8,610	82,164
Debt securities and other fixed-income securities	1,502,256	1,151,466	1,477,239	1,074,078
Other investments	61,901	58,666	47,880	50,810
	1,572,767	**1,292,296**	**1,533,729**	**1,207,052**

Debt securities and other fixed-income securities comprise listed investments. Other investments is an investment in a private equity fund. The private equity fund investment is carried at the net asset value of the fund. Changes in the net asset value are included in investment income.

6. Other debtors

	2021 $'000	2020 $'000
Claims funds	3,633	1,108
Other debtors	34	576
Amounts owed by group companies	26,332	97,304
	29,999	98,988

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.

7. Tangible assets

	Leasehold improvements $'000	Owner occupied land and buildings $'000	Fixtures, fittings and office equipment $'000	Total $'000
Book cost				
At 1 January 2021	1,466	5,836	1,765	9,067
Additions	-	-	618	618
At 31 December 2021	**1,466**	**5,836**	**2,383**	**9,685**
Accumulated depreciation				
At 1 January 2021	1,466	1,240	1,720	4,426
Charge for the year	-	167	27	194
At 31 December 2021	**1,466**	**1,407**	**1,747**	**4,620**
Net book value				
31 December 2021	-	**4,429**	**636**	**5,065**

Land and buildings are occupied by HCCII for its own use and are being depreciated over 50 years through June 2045.

	Leasehold improvements $'000	Owner occupied land and buildings $'000	Fixtures, fittings and office equipment $'000	Total $'000
Book cost				
At 1 January 2020	1,466	3,848	1,765	7,079
Disposals	-	1,988	-	1,988
At 31 December 2020	**1,466**	**5,836**	**1,765**	**9,067**
Accumulated depreciation				
At 1 January 2020	1,466	1,137	1,710	4,313
Charge for the year	-	103	10	113
At 31 December 2020	**1,466**	**1,240**	**1,720**	**4,426**
Net book value				
31 December 2020	-	**4,596**	**45**	**4,641**

8. Other creditors including taxation and social security

	2021 $'000	2020 $'000
Corporation tax	14,372	13,762
Deferred tax liability	726	4,402
Other creditors	199	186
Amounts owed by group companies	25,991	57,769
	41,288	76,119

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

Deferred tax liability	2021 $'000	2020 $'000
At 1 January - deferred tax liability	4,402	6,799
Changes in accelerated capital allowances	398	3
Deferred taxation of release of Equalisation provision	(3,046)	(1,984)
Technical reserves	(85)	83
Short-term timing differences	(972)	(199)
Losses carried forward	300	(300)
Change in UK corporation tax rate	(271)	-
At 31 December - deferred tax liability	726	4,402

The deferred tax liability consists of the following amounts:

	2021 $'000	2020 $'000
Accelerated capital allowances	657	259
Technical reserves	852	999
Short-term timing differences	(783)	398
Deferred taxation for release of Equalisation provision	-	3,046
Losses carried forward	-	(300)
Deferred tax liability	726	4,402

In the Spring Budget 2021, the Government announced that from 1 April 2023 the corporation tax rate would increase to 25% from 19%. As the proposal had been substantively enacted at the balance sheet date, its effects are included in these financial statements.

9. Technical provisions – Company

	Provisions for unearned premiums $'000	Claims outstanding (1) $'000	Deferred acquisition costs (2) $'000	Net technical liabilities $'000
Gross of reinsurance				
At 1 January 2021	409,043	954,859	(87,956)	1,275,946
Movement in provision	136,155	194,063	(29,951)	300,267
Exchange adjustments	(19,872)	(21,764)	4,125	(37,511)
At 31 December 2021	**525,326**	**1,127,158**	**(113,782)**	**1,538,702**
Reinsurance				
At 1 January 2021	(84,802)	(274,131)	18,724	(340,209)
Movement in provision	(39,540)	(61,294)	10,951	(89,883)
Exchange adjustments	3,341	302	(876)	2,767
At 31 December 2021	**(121,001)**	**(335,123)**	**28,799**	**(427,325)**
Net				
At 31 December 2021	**404,325**	**792,035**	**(84,983)**	**1,111,377**

(1) Claims outstanding includes claims incurred but not reported ('IBNR') reserves of $650.8m gross of reinsurance and $165.3m reinsurer's share of IBNR reserves (2020: $544.8m gross; $127.7m reinsurer's share).

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

	Provisions for unearned premiums $'000	Claims outstanding (1) $'000	Deferred acquisition costs (2) $'000	Net technical liabilities $'000
Gross of reinsurance				
At 1 January 2020	310,541	775,176	(70,720)	1,014,997
Movement in provision	86,520	139,418	(14,371)	211,567
Exchange adjustments	11,982	40,265	(2,865)	49,382
At 31 December 2020	**409,043**	**954,859**	**(87,956)**	**1,275,946**
Reinsurance				
At 1 January 2020	(50,995)	(189,355)	11,186	(229,164)
Movement in provision	(31,698)	(79,232)	6,945	(103,985)
Exchange adjustments	(2,109)	(5,544)	593	(7,060)
At 31 December 2020	**(84,802)**	**(274,131)**	**18,724**	**(340,209)**
Net				
At 31 December 2020	**324,241**	**680,728**	**(69,232)**	**935,737**

10. Tax on profit on ordinary activities

	2021 $'000	2020 $'000
UK Corporation tax at 19.00% (2020:19.00%)		
Current tax on income for the year	38,325	34,876
Tax in respect of prior years	**(384)**	**(3,315)**
Current tax charge for the year	37,941	31,561
Deferred tax - origination and reversal of timing differences	(3,644)	(2,401)
Tax on profit on ordinary activities	**34,297**	**29,160**

The tax assessed for the year is higher (2020: lower) than the standard rate of corporation tax in the UK. The differences are explained below:

	2021 $'000	2020 $'000
Profit on ordinary activities before taxation	**179,197**	**168,298**
Tax on profit on ordinary activities at standard rate of 19.00% (2020: 19.00%)	34,047	31,977
Expenses not deductible for tax purposes	52	205
Amortisation of goodwill and intangibles	294	294
Foreign tax	304	216
Effect of tax rate changes	-	502
Effect of foreign exchange	(181)	342
Tax in respect of prior years	(384)	(2,272)
Movement in unrecognised deferred tax asset	167	(2,043)
Other	(2)	(61)
Tax on profit on ordinary activities	**34,297**	**29,160**

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