HCC Insurance Holdings (International) Limited

Single Group-Wide Solvency and Financial Condition Report

31 December 2016

Contents

Executive Summary 4
Directors' Report 5
Report of the External Independent Auditors 6
Section A – Business and Performance....9
A1 – Business 9
A2 – Financial Performance 13
A3 – Investment Performance 15
A4 – Performance of Other Activities....16
A5 – Any Other Information....17
Section B – System of Governance 18
B1 – General Information on the System of Governance....18
B2 – Fit and Proper Requirements 22
B3 – Risk Management System including the Own Risk and Solvency Assessment 23
B4 – Internal Control System 27
B5 – Internal Audit Function 28
B6 – Actuarial Function 29
B7 – Outsourcing....29
B8 – Any Other Information....29
Section C – Risk Profile 30
C1 – Underwriting (Insurance) Risk....30
Strategic, Regulatory and Group risk 34
C2 – Market Risk 36
C3 – Credit Risk 38
C4 – Liquidity Risk 39
C5 – Operational Risk....40
C6 – Other Material Risks....41
Top 10 Risks....42
Stress and Scenario Testing....43
Emerging Risks 45
C7 – Any other information....46
Section D – Valuation for Solvency Purposes 47
D1 – Assets....49
D2 - Technical Provisions....53
D3 – Other Liabilities....63
D4 – Alternative methods for valuation....64
D5 – Any other information 64
Section E – Capital Management....65
E1 – Own Funds....65
E2 – Solvency Capital Requirements and Minimum Capital Requirements 68
E3 – Use of the duration-based equity risk sub-module in the calculation of the Solvency Capital Requirement 71
E4 – Differences between the standard formula and any internal model used....71
E5 – Non-compliance with the Minimum Capital Requirement and non-compliance with the Solvency Capital Requirement....72

E6 – Any other information 72
Section F – ANNEX: Quantitative Reporting Templates 73
Solo Quantitative Reporting Templates 74
Group Quantitative Reporting Templates ....
Section G – ANNEX: Financial Statements for HCCII ....

Executive Summary

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

The Group and Company underwriting strategy which is outlined in Section A2 below has produced strong financial results for 2016. The current rating environment for the London Market lines remains extremely challenging. The Specialty lines of business are also subject to the challenging rating conditions, however they continue to grow organically. A weaker pound has affected the results of the Company and in particular the Specialty lines as a substantial proportion of business is in Sterling and the functional currency of the company is US dollar. The Group and Company are strongly capitalised and benefit from an S&P rating of AA – and a parental guarantee.

Capital Management

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

For 2016, the group and HCCII maintained solvency capital resources in excess of the solvency capital requirement ('SCR'). The position at 31 December 2016 is shown below:

Amounts in USD $'000	HCC Insurance Holdings (Int'l)	HCC International Insurance Co
Solvency II Net Assets	626,490	621,946
Standard Formula Solvency Capital Requirement ('SF SCR')	322,882	321,886
Excess Net Assets over	303,607	300,060
Percentage Excess over SF SCR	194%	193%

Directors' Report

Company Directors

The directors set out below have held office from 1 January 2016 to the date of this report unless otherwise stated:

S A Button
B J Cook
T J G Hervy
N I Hutton-Penman
H Ishii (appointed 1 November 2016)
K L Letsinger
N C Marsh (non-executive Chairman)
H-D Rohlf (non-executive)
C Scarr (non-executive)
W R Treen BSc, FIA (non-executive) (resigned 31 March 2016)

Statement of Directors' Responsibilities

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

We are satisfied that:

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

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

Group Directors

The directors set out below have held office from 1 January 2016 to the date of this report unless otherwise stated:

B J Cook (Chairman)
R L Hughes (resigned 29 July 2016)
K L Letsinger
R D Rinicella

Statement of Group Directors' Responsibilities

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

We are satisfied that:

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

On behalf of the Boards,

K L Letsinger
Group Chief Financial Officer

30 June 2017

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

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

Opinion

We have audited the following documents prepared by the Company as at 31 December 2016.

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Single Group-Wide Solvency and Financial Condition Report of the Company as at 31 December 2016, (**'the Narrative Disclosures subject to audit'**); and
- Group templates S.02.01.02, S.23.01.22, S.25.01.22 and S.32.01.22 (**'the Group Templates subject to audit'**).
- Company templates S.02.01.02, S.17.01.02, S.23.01.01, S.25.01.21 and S.28.01.01 in respect of HCC International Insurance Company plc (**'the Company Templates subject to audit'**)

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

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

- The 'Summary', 'Business and performance', 'System of governance' and 'Risk profile' elements of the Single Group-Wide Solvency and Financial Condition Report;
- Group templates S.05.01.02 and S.05.02.01 and Company templates S.05.01.02, S.05.02.01 and S.19.01.21;
- The written acknowledgement by management of their responsibilities, including for the preparation of the Single Group-Wide Solvency and Financial Condition Report (**'the Responsibility Statement'**);

In our opinion, the information subject to audit in the relevant elements of the Single Group-Wide Solvency and Financial Condition Report of the Company as at 31 December 2016 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based, as modified by relevant supervisory modifications.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) (ISAs (UK & I)), International Standard on Auditing (UK) 800 and International Standard on Auditing (UK) 805, and applicable law. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the relevant elements of the Single Group-Wide Solvency and Financial Condition Report* section of our report.

Emphasis of Matter - Basis of Accounting

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

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

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

1) Modification to group supervision allowing preparation of group SFCR at the level of EEA holding company ("other methods"); and

2) Modification to group supervision to submit a single group-wide SFCR.

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

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

It is our responsibility to form an independent opinion, in accordance with applicable law, ISAs (UK & I) and ISAs (UK) 800 and 805 as to whether the information subject to audit in the relevant elements of the Single Group-Wide Solvency and Financial Condition Report is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based. ISAs (UK & I) require us to comply with the Auditing Practices Board's Ethical Standard for Auditors.

An audit involves obtaining evidence about the amounts and disclosures in the relevant elements of the Single Group-Wide Solvency and Financial Condition Report sufficient to give reasonable assurance that the relevant elements of the Single Group-Wide Solvency and Financial Condition Report are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the relevant elements of the Single Group-Wide Solvency and Financial Condition Report. In addition, we read all the financial and non-financial information in the Single Group-Wide Solvency and Financial Condition Report to identify material inconsistencies with the audited relevant elements of the Single Group-Wide Solvency and Financial Condition Report. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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

Report on Other Legal and Regulatory Requirements.

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

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Chartered Accountants

7 More London Riverside

30 June 2017

- *The maintenance and integrity of the Company's website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Single Group-Wide Solvency and Financial Condition Report since it was initially presented on the website.*
- *Legislation in the United Kingdom governing the preparation and dissemination of Solvency and Financial Condition Reports may differ from legislation in other jurisdictions.*

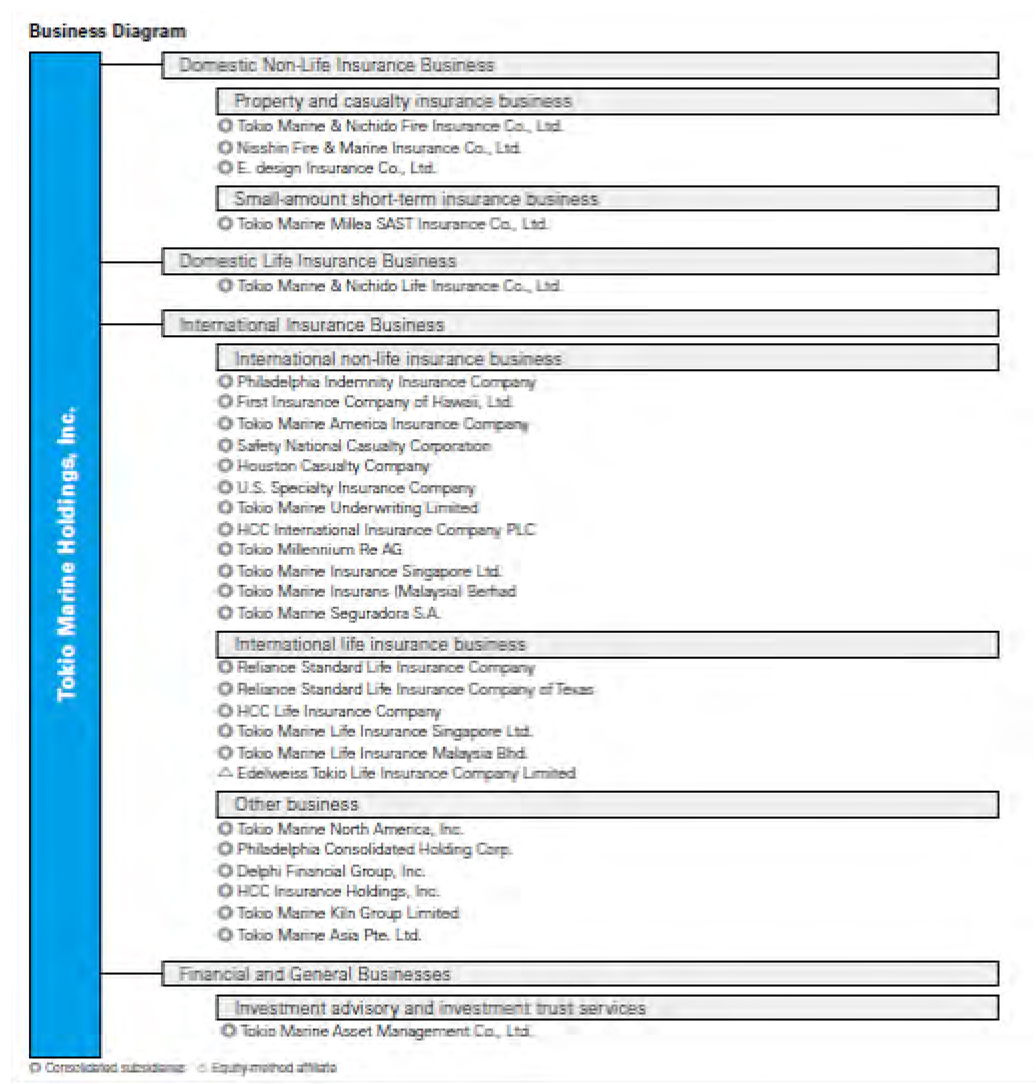
Section A – Business and Performance

A1 – Business

Group Information

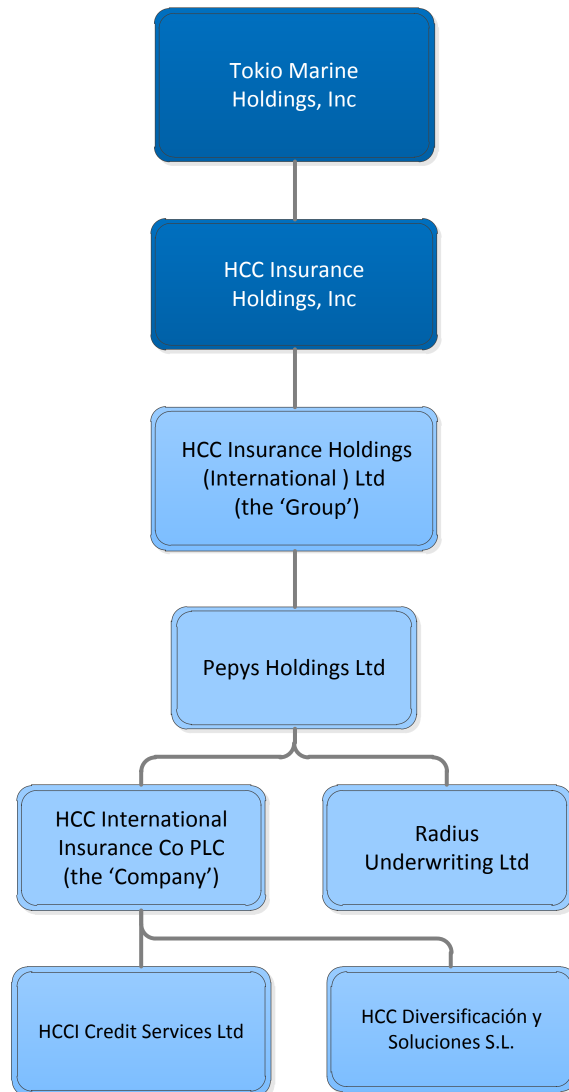
HCC Insurance Holdings (International) Limited ('HCCIH(I)') is a wholly owned subsidiary of Tokio Marine Holdings, Inc. ('TMHD') whose head office is located in Tokyo, Japan. TMHD is a leading international insurance group with offices worldwide. As of 31 December 2016, TMHD had total assets of YEN ¥22.1 trillion (2015: YEN ¥21.9 trillion) and shareholders' equity of YEN ¥3.4 trillion (2015: YEN ¥3.6 trillion). TMHD's major insurance companies have a financial strength rating of A+ (Stable) from Standard & Poor's Financial Services LLC. Tokio Marine Group consists of TMHD, 245 subsidiaries, and 32 affiliates that are engaged in the domestic non-life insurance business, domestic life insurance business, international insurance business, and financial and general businesses.

The following is the business diagram of Tokio Marine Group.



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

The organisation structure of the HCCIH(I) group ('the Group'), excluding dormant entities, is as follows:



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

- HCC International Insurance Company plc ('HCCII') ('the Company') is an international insurance company authorized under the Financial Services Markets Act (2000) by the Prudential Regulation Authority to transact general insurance. The Company is regulated by both the Financial Conduct Authority and the Prudential Regulation Authority. The principal activity of the Company is the transaction of general insurance and reinsurance business in the United Kingdom and Continental Europe where it benefits from the European Union Freedom of Services charter to write across the European Union member states. HCCII has branches established in Spain, Republic of Ireland, Germany, Italy, France, Switzerland and Norway; and
- HCC Credit Services Limited is a data and information provider to the credit insurance market.

HCCII is part of the Tokio Marine HCC International Group ('TMHCC International'). HCCII is the flagship carrier for TM HCC International operations. TMHCC International's operations write on two other platforms; Houston Casualty Company London Branch and Lloyd's Syndicate 4141.

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

The method adopted for the group undertakings solvency consolidation was method 1 of accounting consolidation.

Company Information

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

Auditor and Regulatory Bodies

The regulatory supervisor and external auditor for HCCIH(I) (Solvency II only) and HCCII are set out below:

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

Group Structure

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

HCC Insurance Holdings (International) Ltd ('HCCIH(I)')

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

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

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

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

Pepys Holdings Ltd

Pepys Holdings Ltd directly owns Rattner Mackenzie Ltd and Radius Underwriting Limited. Pepys Holdings Ltd does not participate in any trading or investment activities.

HCC International Insurance Company Plc ('HCCII')

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

HCCII is authorized to underwrite Property Treaty, Property Direct and Facultative, Accident and Health, Energy, General Liability, Marine Hull, Financial Lines, Credit and Political Risk and Contingency. HCCII is based in the United Kingdom and has authorized branches established in Republic of Ireland, France, Spain, Germany, Italy, Switzerland and Norway. The company

underwrites risks across its branch network and across the rest of the EEA via freedom of services authorisations and also accepts inwards reinsurance risks from United States, Canada, Australia and Other Non-Europe.

HCCII's business philosophy and strategic focus is to underwrite profitable business which includes careful risk selection and reinsurance purchasing in order to preserve shareholder's equity and to meet its target risk adjusted return on capital. Underwriting is concentrated in selected, narrowly defined, specialty lines of business where consistent underwriting profit can be achieved. HCCII's underwriting personnel with access to, and expertise in, the insurance and reinsurance marketplace have enabled HCCII to achieve its strategic objectives.

The current rating environment for the London Market lines of business (principally Energy and Marine, Property Direct and Facultative and Property Treaty business) is extremely challenging as a result of excess capital in the market and will likely result in decreased premium volumes. The Specialty lines of business (Credit and Surety, Financial Lines and Professional Risks) are also subject to the same rating conditions; they continue to grow organically due to a combination of unique distribution channels and disciplined risk selection.

The Group and HCCII continues to benefit from the strong financial strength rating which remains a significant differentiator and a key selling point in many of the markets in which HCCII operates, particularly Surety and Financial Lines.

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

HCCI Credit Services Ltd

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

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

HCC Diversificacion y Soluciones S.L.

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

Radius Underwriting Limited

Established in late 2016, Radius Underwriting Limited is a subsidiary of Pepys Holdings Ltd and is an appointed representative of HCCII to provide online distribution through Affinity Groups to distribute UK PI business underwritten on HCCII paper through affinity and other groups. Service levels agreements are in place for the provision of back office functions, including Compliance, Company Secretarial, Finance and IT, which is consistent with other group entities. This business will be subject to the same underwriting and other risk controls in place with the other UK Professional Indemnity business as HCCII will continue to maintain responsibility for the underwriting controls in place for business which is accessed by Radius. The expectation is for Radius to become active in mid-2017 with expected volume of business to be less $1.2 million in 2017.

An appropriate governance structure has been established with a separate Board and Operations Committee to manage the day-to-day running of the company which will become active when the product is launched in 2017.

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

A2 – Financial Performance

A summary of the profit and loss statement for the year ended 31 December 2016 for the Group and HCCII was as follows:

USD'000	HCC Insurance Holdings (International) (Group)	HCC International Insurance Company plc (Company)
Balance on the technical account for general business	174,990	174,990
Net investment income	6,400	6,400
FX losses from revaluation of investments	(25,086)	(25,086)
FX gains of revaluation of other monetary items	30,203	30,203
Other income / (charges)	(6,563)	(9,546)
Profit on ordinary activities before tax	179,944	176,961
Tax	(39,425)	(38,863)
Profit on ordinary activities after tax	140,519	138,098

The Group

The Group's result is not materially different than the Company and includes service fee income of HCCI Credit Services, which totals approximately $3m.

The Company

HCCII made a net profit after tax for the financial year of $138.1m (2015: $41.2m) that includes a balance on the technical account for general business of $175.0m (2015: $102.3m). The net profit includes the release of the equalization provision which is no longer required under Solvency II effective from 1 January 2016 totalled $96.2m (2015: $16.1m additional provision increase) and investment income of $24.2m (2015: $22.4m) has also been recognised in the technical account.

The Balance on the technical account excluding the equalisation provision and investment income is $54.6m. The strong result benefited from a benign large catastrophe experience. Discussion of the underwriting results and investment return is included below.

Underwriting Performance by Line of Business

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

The overall TMHCC International Strategy can be summarised as follows:

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

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

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

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

The current rating environment for the London Market lines of business remains extremely challenging as a result of excess capacity in the market which has led to decreasing premium volume. The Specialty Lines of business are also subject to challenging

rating conditions, however they continue to grow organically due to a combination of unique distribution channels and disciplined risk selection. The Company's reporting currency is US dollar and therefore has been affected to some extent by the weakened pound given a substantial portion of its Specialty business is Sterling.

The business mix of the Company in 2016 has changed reflecting a decrease in volume from London Market Lines of business reflective of market conditions; this has been offset by organic growth in the Specialty Lines. 2016 was free of large catastrophes resulting in better than expected performance of the London Market lines of business. The core lines of the Specialty segment performed well and in line or better than expectations. This good performance was dampened by the Lifestyle business (which the Company entered in 2015 and has now exited from 1 January 2017). Additionally, the Credit and Political risk business, a long standing and good performing class of business has had challenging results this year resulting from difficult market conditions. The Company continues to benefit from the strong financial strength rating and backing of its parent and an S&P rating of AA- which remains a significant differentiator and a key selling point in many of the markets in which the Company operates, particularly in the Surety and Financial Lines.

The underwriting results of the Company follow:

USD'000	2016 Actuals			
	Gross Written Premium	Net Earned Premium	Net Loss Ratio %	Underwriting Result
London Market				
Energy & Marine	35,080	22,920	38.2%	3,522
Property & Property Treaty	49,012	37,837	18.8%	17,977
Accident & Health	10,888	10,845	36.9%	3,383
Other	6	(26)	n/a	(4,234)
Total London Market	**94,985**	**71,577**	**27.4%**	**20,648**
Specialty				
Professional Risks	93,438	91,591	30.7%	22,176
Surety	76,176	57,097	22.4%	15,103
Credit	37,763	37,704	52.6%	1,129
HCC Credit	41,662	35,700	63.5%	3,061
Total Surety & Credit	**155,601**	**130,501**	**42.3%**	**19,293**
Financial Lines	123,447	81,219	51.8%	3,423
Other	81,159	56,885	n/a	(10,932)
Total Specialty	**453,644**	**360,197**	**44.0%**	**33,960**
Total	**548,630**	**431,774**	**40.5%**	**54,608**

Solvency II requires sixteen different product classifications which are classified differently to how the business is managed. The 2016 gross written premium and operating performance of the top five Solvency II classes are as follows:

Underwriting Result	**General Liability**	**Credit and Suretyship**	**Medical Expense**	**Property**	**Marine, Aviation & Transport**	**Other**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Gross Written Premium	187,673	149,044	58,835	51,181	22,636	79,261	**548,630**
Net Earned Premium	147,923	127,615	54,169	39,094	12,750	50,224	**431,774**
Net Claims	(66,559)	(47,428)	(30,938)	(3,915)	(3,722)	(22,158)	**(174,719)**
Net Expenses	(68,976)	(62,297)	(27,995)	(12,851)	(6,880)	(23,450)	**(202,448)**
Underwriting Result	12,388	17,890	(4,763)	22,328	2,149	4,616	**54,607**

General Liability

This class is comprised principally of portions of Professional Risks and the Directors and Officers component of Financial Lines business. The Professional Risks business is comprised of Professional Indemnity and Liability business where organic growth through product development, new business initiatives and increased regional presence have continued year on year. The Professional Indemnity business is high volume, low premium business underwritten through regional brokers with a focus on client service and the target clients are smaller, lower risk businesses. The Liability business comprises niche products covering lower risk trades and is made up of single risk and select affinity business. Directors and Officers ('D&O') liability is included in this

class. As a result of difficult market the gross written premium on this line has reduced. Operating performance of these classes of business has been within expectation.

Credit and Suretyship

This class of business is comprised principally of the Credit and Political Risk and Surety lines of business. The market environment has become increasingly challenging due to growing competition and fewer insolvencies due to the upturn in the economy. This includes UK Credit business where high service standards position the Company well with clients and business retention is historically good. The other Credit and Political Risk business has maintained its market position with continued benefit from the Company's financial rating. In 2016, the Company actively sought to widen its niche UK Credit distribution network by targeting larger clients and successfully integrating a new Credit underwriting team. The Surety lines have continued to experience organic growth benefiting from the Company's position in the market and its AA rating which attracts good opportunities to sell bond cover supporting large multi-national companies with significant infrastructure projects. The operating performance of these lines of business has been within expectation.

Medical Expense

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

Property

The property line of business includes Property Treaty and Property Direct and Facultative lines of business. Soft market conditions, increase capacity and substantial competition have resulted in contractions of these lines of business in 2016. Large catastrophe experience has been benign producing results which have exceeded expectations.

Marine, Aviation and Transport

The Energy market continues to remain challenging due to low oil prices and overcapacity in the insurance market contributing to the low level of income. Continued low oil prices since mid-2014 has contributed to fewer new projects being implemented along with scaling back of major drilling operations, which had a bigger impact in 2016. The difficult environment will likely continue for the foreseeable future with possible further contraction of premium volumes. The market conditions have resulted in contraction of the book of business with loss experience has been within expectation.

Other

Other is comprised principally of Non-proportional Casualty and Marine business, Income protection and Miscellaneous Financial Loss.

Underwriting Performance by Solvency II Geographic Location

The information below is in conformity with Solvency II requirements whereby the 'geographic location' is defined by either underwriter or risk location dependent upon type of business.

SII UK and Top Five Locations by GWP	**UK**	**Spain**	**Germany**	**Ireland**	**France**	**Italy**	**Other**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Gross Written Premium	304,418	49,423	22,244	16,847	11,544	10,384	133,770	**548,630**
Net Earned Premium	269,008	24,499	15,196	13,722	5,711	7,489	96,150	**431,774**
Net Claims	(98,363)	(5,400)	(8,430)	(2,637)	(5,668)	(2,135)	(52,085)	**(174,719)**
Net Expenses	(111,563)	(4,348)	(8,269)	(18,614)	(6,205)	(3,850)	(49,600)	**(202,448)**
Underwriting Result	61,124	15,107	966	6,090	(14,140)	(17,706)	3,167	**54,607**

A3 – Investment Performance

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

New England Asset Management was investment managers for the US Dollar, Sterling, Euro and CHF funds throughout the year. The funds consist primarily of a portfolio of highly rated Corporate Bonds, which are BBB rated and above, including Bonds guaranteed by the US, UK and German governments. The average duration of the aggregate portfolios at the year-end was 4.01 years.

The performance of the Company's portfolio is shown below:

Asset Classes - USD'000	Gross Investment Income	Realised Gains and Losses	Unrealised Gains and Losses	Total
Corporate Bonds	11,340	1,247	4,578	17,165
Government Bonds	3,518	131	(716)	2,934
Mutual Funds	0	0	0	0
Equity Instruments	3,022	203	5,145	8,370
Other	6,366	0	(2,585)	3,781
Short term deposits	0	0	0	0
Total	**24,247**	**1,581**	**6,422**	**32,249**
Foreign Exchange				(25,086)
Investment Expense				(1,692)
Total	**24,247**	**1,581**	**6,422**	**5,471**

The performance of the investment portfolio excluding FX from revaluation is $30.5m. Foreign exchange loss from the revaluation of non USD investments totalled $25.1m. This was offset to some extent by $30.2m foreign exchange gains on the revaluation of monetary items other than investments which reflect the Company's policy to match foreign currency assets and liabilities where possible.

In original currency, the annualized total investment returns 2.42% for the US dollar portfolio, 4.23% for Sterling portfolio and 2.46% for the Euro portfolio.

The investment portfolio valuation has been impacted by various factors in 2016 including the strengthening of the US economy in the latter part of the year. Some of the key factors that have influenced this are:

- the outcome of the US Presidential election led markets to price in increased fiscal stimulus and consequent greater government borrowing, higher inflation and interest rates
- US Dollar strength relative to the Euro and GBP especially as a direct impact of the EU Referendum.

The US dollar portfolio outperformed the benchmark in 2016 by 42 basis points ("bps"). The biggest driver of the outperformance was the lower credit quality of the corporate portfolio versus the index. The GBP portfolio matched the performance of the GBP benchmark (+4.23% vs +4.32%) while the EUR portfolio outperformed the EUR benchmark by 67 bps.

The equity portfolio (which comprised of 6.8% of the Company's investment portfolio at 31 December 2016) is managed by Goldman Sachs Asset Management ('GSAM') with a strategy focused on broad market exposures with lower beta stocks, which yield higher dividends which has produced good returns. In March 2017 the Company sold the portfolio and will invest in suitable non-equity investments in line with TM Group preference.

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

A4 – Performance of Other Activities

Other Material Income and Expenses

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

USD'000	HCC Insurance Holdings (International) (Group)	HCC International Insurance Company plc (Company)
Corporate oversight costs	3,141	3,225
Continental Europe office closure costs	3,157	3,157
Acquisition service awards	1,664	1,664
Amortisation of goodwill	1,545	1,545
Other income	(2,944)	-
Total other (income) / charges	6,563	9,591

A5 – Any Other Information

Share Capital

On 31 March 2016 the Company issued 8,837,000 ordinary $1 shares to its immediate parent company at par value for a total consideration of $8.8m.

Dividends

The Group paid dividends during the year totalling $Nil (2015: $Nil).

During the year, the Company paid dividends totalling $Nil (2015: $8.7m).

Section B – System of Governance

B1 – General Information on the System of Governance

The Group's governance

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

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

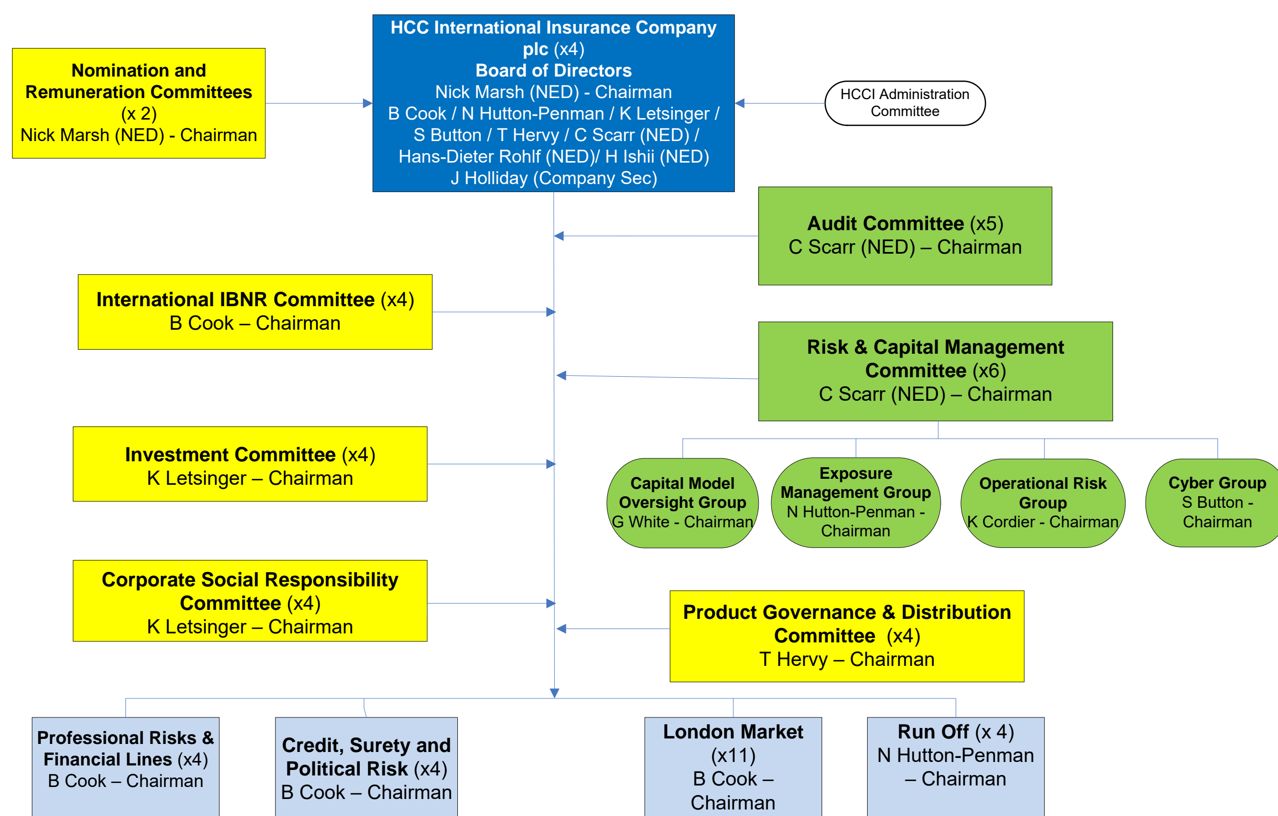
Similarly directors of subsidiaries within the Group are likewise all employees within the Tokio Marine HCC Group and remuneration is not received specifically for the activities required by the directorship.

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

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

Overview of the Company's Board and Committee Structure

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



Board of Directors

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

The principal functions of the Board are to:

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

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

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

Audit Committee

The main purposes of the Audit Committee are to:

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

Corporate Social Responsibility Committee

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

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

Executive Underwriting Monitoring Committee

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

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

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

International IBNR Committee

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

- review the booked loss reserve position by quarter and compare to actuarial projections;
- review the catastrophe loss reserves quarterly;

- ensure the reserving methodology applied is consistent from quarter to quarter and changes are fully debated and understood; and
- ensure a full actuarial review of each line of business, whether reserved in London or Houston, is carried out in the fourth quarter of each year.

Investment Committee

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

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

Nominations Committee

The main purposes of the Nominations Committee are to:

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

Product Governance & Distribution Committee

The objectives of this Committee are to:

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

Remuneration Committee

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

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

Risk & Capital Management Committee

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

- advice to the Board on risk strategy;
- proposals to the Board in respect of overall risk appetite and tolerance, as well as the metrics to be used to monitor risk management performance;
- oversight and challenge of the design and execution of stress and scenario testing, risk management and oversight arrangements;
- ensuring risks are mitigated and managed effectively including oversight of the Risk Management Function;
- ensuring that assessments of regulatory capital are completed to the applicable standard and within regulatory timescales;
- making recommendations to the Board on the required amount of regulatory capital;
- oversight of emerging risks; and

- management of the risk groups for oversight of capital model development, exposure management controls and business continuity plans.

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

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

Administration

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

Key Functions

HCCII has six key functions, as defined by the Solvency II Directive and associated guidelines. All key functions are led by qualified and highly experienced individuals.

Actuarial

The Actuarial function sits across all European underwriting platforms and is led by the Chief Actuary. Its primary responsibility is the coordination of the calculation of the technical provisions, ensuring that methodologies and assumptions used are appropriate to the line of business, assess the sufficiency and quality of the data provided and compare best estimates against experience.

Claims Management

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

Compliance

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

Internal Audit

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

Risk Management

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

works closely with the Chief Actuary as the actuarial function is responsible for calculating the probability and risk of future events using specialised mathematical techniques, software and commercial expertise.

Underwriting via Network of Branches

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

Material Changes in the System of Governance

During the reporting period there were no material changes in the system of governance as described above.

Adequacy of the System of Governance

The governance structure has been designed to ensure that management are able to provide the appropriate levels of oversight whist allowing decisions to be made more quickly and ensuring that the Executive Management and Senior Managers are empowered to make decisions at the right levels.

The Company continues to align its management and governance structure, taking into account the nature, scale and complexity of the risks inherent thereby proactively responding to both the business and regulatory needs.

Remuneration Policy

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

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

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

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

B2 – Fit and Proper Requirements

Fit and Proper Compliance

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

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

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

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

Senior Insurance Managers Regime

The Senior Insurance Managers Regime ('SIMR') came into force on 7 March, 2016. The regime applies to the Individuals that effectively run the Company and the Senior Managers who have responsibilities for key functions. Under section 59 of the Financial Services and Markets Act 2000 (FSMA), authorised firms are required to ensure that individuals seeking to perform one or more of the PRA-designated Senior Manager Functions gain PRA approval prior to taking up the regulated activities.

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

Risk Management Strategy and Objectives

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

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

1. Systematic and structured risk management
   The control processes should include recognised systematic activities, where practicable, that ensure results are reliable, robust and comparable, thereby allowing management to adopt them with confidence. These processes should reflect best practice and be supported by the appropriate tools and techniques.

2. Evidenced-based risk management
   The inputs to the process should be based on historical data (where available), experience, subject knowledge, expert judgement and future projections. To this end lessons-learned workshops should be conducted at the end of projects or newly completed first time activities with information being stored for similar future events.

3. Human factors
   Human behaviour such as bias, motivation, 'rule of thumb', unwillingness to accept risk or change will all influence the effectiveness of control practices. Management should take account of these behaviours during the design and implementation stages. Additionally, consideration should be given to problems of communication due to our organisational structure and geographical dispersion.

4. Adding benefit and value
   The optimisation of risk management practices and risk response planning should contribute to the demonstrable achievement of business objectives and provide overall organisational benefits, such as efficiency in operations, financial performance, accurate reporting, regulatory compliance and good reputation. To add value the control environment should under pin our corporate governance structure, provide assurance to Group and reflect legislative requirements.

HCCII's strategic risk objectives are:

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

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

HCCII's strategy for managing its risk is to:

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

Risk Management and Control

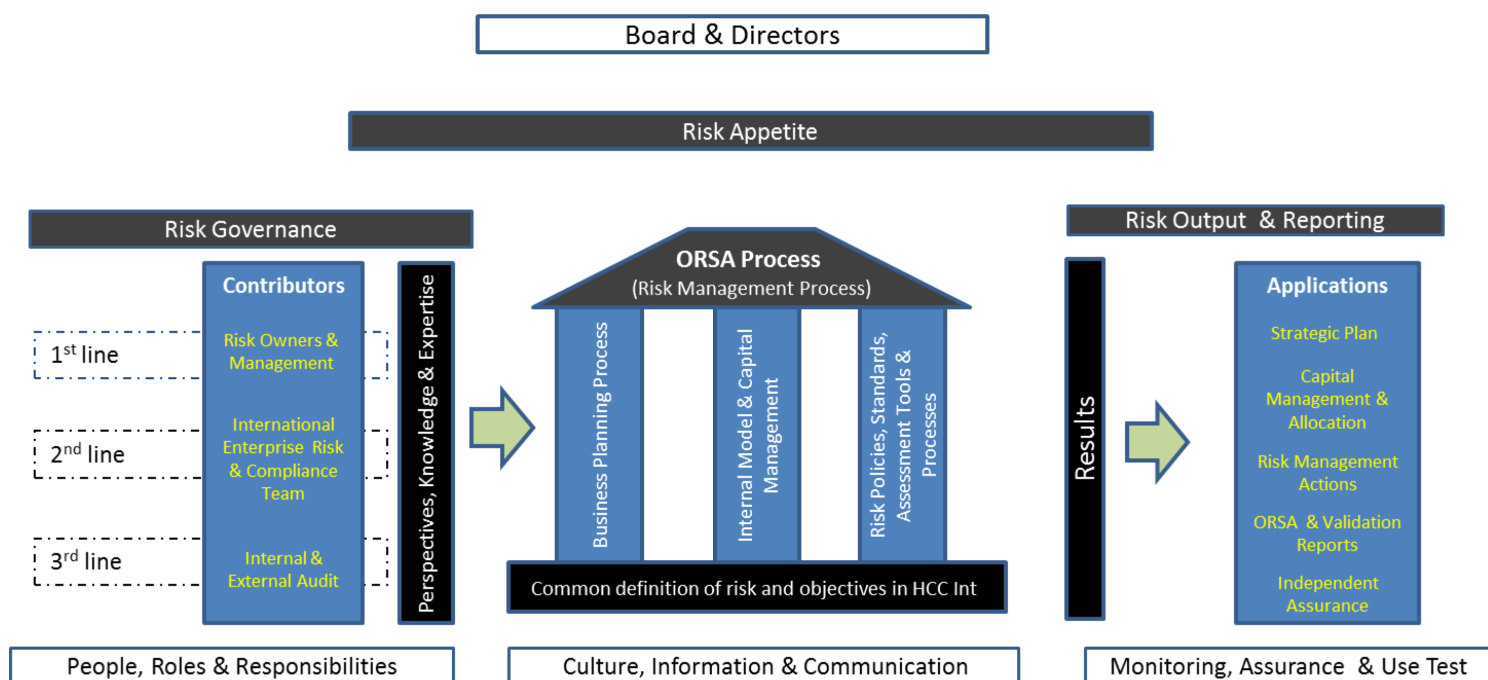
HCCII operates a "three line of defence" risk governance framework which means that we coordinate risk holistically ensuring that all types of risk are prioritised and analysed both in absolute and relative terms.

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

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

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

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



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

Risk Identification

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

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

Risk Register

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

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

Risk Policies

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

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

Risk Appetite, Tolerances and Limits

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

HCCII accepts the parent's risk appetite with regards to Strategic and Insurance risks but on occasion may reduce the specific appetite for a particular line of business as a prudent move against negative market conditions and influences. This form of limitation would be managed via amended business plans, reduction in underwriting authorities and regularly monitored via the Executive Committee.

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

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

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

Risk Monitoring and Review

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

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

The Enterprise Risk team maintains the risk management framework which includes monthly data accuracy reporting and quarterly assessments of operational near misses and losses. Bi-annual reviews of the live risk register and emerging risk register are also performed with relevant risk and control owners. Stress testing, including reverse stress tests and scenario analysis is performed

periodically to assess the robustness of the risk and capital management framework and solvency requirements with results reviewed and approved by the Risk and Capital Management Committee and Board of Directors respectively. The detailed results are also included in the annual ORSA Report.

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

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

Stress and Scenario Testing

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

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

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

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

- Internal Model Calibration: the results of stress and scenario testing are key calibration inputs for Catastrophe Risk and Operational Risk. A representative set of scenarios are designed and the results are used as calibration points for the model.
- Internal Model Validation: stress and scenario testing is used to independently validate the internal model.
- Business Plan Review: the Company stress tests the forecasts to understand various scenarios on both profitability and the future capital position.
- Reverse stress testing: the Company performs annual reverse stress testing exercises to identify and assess events and circumstances that would cause the Company's business model to become unviable.

Solvency Capital Management

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

Since the internal model(as explained in Section E4) provides a more tailored view of the Company's risk profile compared to the standard formula, the internal model output is used to monitor HCCII's view of risk. However, there are no risk categories in our risk register where the risk is not identified in the Standard Formula.

Own Risk and Solvency Assessment ('ORSA')

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

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

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

Stakeholder	Selected Responsibilities
Board	• Review and approve the ORSA Policy • Review and approve the ORSA report on an annual basis which constitutes the formal ORSA sign-off • Setting the overall business strategy and direction • Setting risk appetite for the business
Risk and Capital Management Committee	The Tokio Marine HCC International Boards delegate risk management oversight and monitoring activities to this committee. The committee is the primary forum for challenging both the ORSA content and process, in order to recommend approval of the ORSA Policy and ORSA Report to the Boards.
Executive	• Engendering a positive risk culture • Ensure appropriate governance, committee structure and escalation procedures such that risks can be monitored and managed • Agree future plans for the lines of business • Engage on stress tests, reverse stress tests and emerging risks
Enterprise Risk Function	• Producing the ORSA Report and collating the activities to sign-off • Setting risk policies consistent with risk appetite • Translating risk appetite into more granular tolerance and risk limits • Working with business owners to develop appropriate risk reporting • Ensuring consistency between risk identification, measurement and reporting • Managing scenario testing and reverse stress testing framework • Measuring and monitoring the risk culture within the business • Ensuring the documentation of all the underlying processes which support the ORSA
Actuarial Function	• Developing tools to ensure appropriate risk measurement and monitoring including where necessary 'lite models' such as replicating portfolios and curve fitting • Carrying out stress and scenario analysis • Carry out financial projections to better understand the risk drivers during the business planning horizon • Translating risk appetite into more granular tolerance and risk limits • Preparation and monitoring of risk metrics • Developing, parameterising and running the Economic Capital Model ('ECM') • Comparisons of Standard Formula Solvency Capital Requirement to the internally generated ECM
Finance Function	• Prepare annual budgets and monitor against actual performance • Calculate the capital held and monitor solvency • Implement the capital strategy • Develop and maintain the capital contingency plan
External Consultant / Internal Audit	• Provide benchmarking and independent review • Ensure that there is an appropriate control framework in place • Provide assurance regarding the underlying processes

ORSA Report

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

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

B4 – Internal Control System

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

Internal Audit assurance

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

In addition to our risk-based internal audit program, the internal audit team conducts internal controls tests on behalf of management. A total of 240 controls across 11 key cycles were tested for 2016. The testing was divided into two phases during the year. The overall results of the 2016 controls testing were positive, with 10 failures which were primarily low level IT control deficiencies.

Compliance Function

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

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

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

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

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

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

B5 – Internal Audit Function

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

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

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

Audit Charter

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

Audit Independence

For the international operations, the Head of International Internal Audit, David Charlton, reports functionally to the Tokio Marine HCC Corporate Vice President of Internal Audit & Controls, Dawn Miller, who is based in the Houston head office, and

administratively to the TMHCC International Chief Risk Officer, Karen Cordier, who is based in the London office. The reporting line into Karen Cordier allows internal audit to be kept up to date with changes and developments within the international operations. The Head of International Internal Audit also attends the HCII Audit Committee meetings on at least a quarterly basis to report audit results and findings. There is also direct communication between the Chairman of the HCII Audit Committees and the Head of International Internal Audit during the course of the year.

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

B6 – Actuarial Function

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

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

B7 – Outsourcing

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

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

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

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

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

Key third party outsourcing providers are summarised below:

Outsourced Function	Description	Location of service provider
Administration	Data entry and premium collection	UK
Claims Management	Claims handing and settlement	UK
Specialist technical services	Asset Management	USA
Specialist technical services	Payroll processing	UK, Ireland & Netherlands
Specialist technical services	Actuarial Services	UK
Specialist technical services	Credit checks for trading partners	UK

B8 – Any Other Information

There is no additional information that requires disclosure.

Section C – Risk Profile

TMHCC International has identified the risks arising from its activities and has established policies and procedures to manage these risks in accordance with its risk appetite. HCCII maintains a risk register and categorises its risks into six areas: Insurance, Strategic, Regulatory and Group, Market, Operational, Credit and Liquidity. The sections below define each category of risk and outline the Group's risk profile (where relevant), risk appetite and how it manages/mitigates each category. The section concludes with details of the identified largest risks from the Risk Register, results from the most recent annual "Stress & Scenario" exercise and emerging risks.

Ignoring any "Brexit" impacts, it is not anticipated that there will be any material risk exposure changes over the three year planning cycle. Further discussion on "Brexit" may be found under the "Other Material Risks" section E6 below.

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

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

C1 – Underwriting (Insurance) Risk

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

Premium Risk

Nature of the Risk

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

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

Managing & Mitigating the Risk

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

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

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

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

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

The annual Corporate budgeting process comprises a three year Plan which incorporates the Group's underwriting strategy by line of business and sets out the classes of business, the territories and the industry sectors in which business is to be written. The Plan is approved by the directors and monitored by the underwriting committees on a monthly basis.

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

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

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

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

The Group uses a number of modelling tools to monitor its exposures against the agreed risk appetite set and to simulate catastrophe losses in order to measure the effectiveness of its reinsurance programmes. Stress and scenario tests are also run using these models (see separate "Stress & Scenario" section below).

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

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

- Combination of premium volumes and rate change to be in line with, or better than, budget (this metric is calculated at a combined level)
- Maintaining a less than 10% probability of the underwriting result being a loss
- Maintaining a diversified portfolio of underwriting with less than 25% of premium coming from a single line of business
- Maintaining a diversified portfolio of underwriting with an average correlation of 25%, by Underwriting and Reserving
- Absolute Gross per risk line size should not exceed 50% of SHE or be double max net line
- Maintaining a diversified portfolio not over-exposed to catastrophes, with less than 50% of premium Cat exposed in total across all entities
- Net PMLs being below 50% of Shareholder's Equity (SHE)
- Net modelled 1 in 1000 Cat event is less than 50% SHE
- Less than 1% chance of gross Cat event being more than 50% SHE

Reinsurance Risk

Nature of the Risk

Reinsurance risk arises where reinsurance contracts:

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

Failure of a reinsurer to pay a valid claim is considered a credit risk which is detailed in the credit risk section.

Managing & Mitigating the Risk

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

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

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

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

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

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

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

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

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

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

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

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

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

When purchasing reinsurance the following tolerance areas are considered at an overall organisation and a legal Entity level:

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

Claims Management Risk

Nature of the Risk

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

Managing & Mitigating the Risk

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

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

- Incurred movements to be less than 110% of benchmark
- Case reserve adequacy, within 30% of 1/3rd rule benchmark
- Less than 10 complaints
- Volume of denials less than 10% of claims

Reserving Risk

Nature of the Risk

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

Managing & Mitigating the Risk

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

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

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

- Maintaining reserves at, or above, Actuarial midpoint
- Maintaining a less than 10% probability of total reserve deterioration, excluding catastrophe losses, exceeding 100% of annual budgeted profit

Strategic, Regulatory and Group risk

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

Strategic Risk

Nature of the Risk

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

Managing & Mitigating the Risk

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

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

- The combined ratio to be achieved in the current year to ensure an overall combined ratio of 88% or better over the underwriting cycle
- Net earnings to be within 20% negative variance of budget
- Maintaining a less than 2.5% probability of a net loss, including investment income, exceeding 25% of SHE
- Forecast expense ratio to be within 20% negative variance of budget
- SII available assets as a % of Regulatory capital + Buffer
- Maintaining a less than 5% probability of net assets falling below solvency requirement

Regulatory Risk

Nature of the Risk

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

Managing & Mitigating the Risk

The Group estimates its Economic capital requirements using an internal model (the Economic Capital Model ('ECM')) which, the Directors believe, is the most appropriate tool to determine the Company's medium term capital needs. However, HCCII is currently outside of the PRA Internal Model Approval Process ('IMAP') and since 1 January 2016 has measured regulated capital requirement using the Standard Formula Solvency Capital Requirement ('SF SCR'). The Board has reviewed the SF SCR against the ECM and has concluded that the SF SCR is appropriate. The SF SCR is measured again the Company's Solvency II Available Assets to monitor its Solvency. Given the inherent volatility of the SF SCR and Solvency II Available Assets, the Company carries an amount in excess of the regulatory minimum. At 31 December 2016, the estimated Solvency II Available Assets were 190% in excess of the regulatory minimum.

Group Risk

Nature of the Risk

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

Contagion risk is the risk arising from actions of one part of the group which could adversely affect any other part of the group. The Group is a member of the Tokio Marine group and therefore may be impacted by the actions of any other group company.

Reputation risk is the risk of negative publicity as a result of the Tokio Marine group's contractual arrangements, customers, products, services and other activities.

Risk Profile & Concentration of the Risk

HCCII engages in intra-group transactions and has material related party reinsurances with other TMHCC International entities, which are transacted on an arm's length or open market basis.

Over time, it is expected that the acquisition of HCC by Tokio Marine will lead to further intra-group transactions.

Managing & Mitigating the Risk

Contagion risk is managed by operating with clear and open lines of communication across the group to ensure all group entities are well informed and working to common goals.

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

C2 – Market Risk

Nature of the Risk

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

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

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

Risk Profile & Concentration of the Risk

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

Asset Type & Rating	31/12/16 Asset Value ($'000)
Government Bonds AAA	33,004
Government Bonds AA+	13,217
Government Bonds AA	13,034
Government Bonds AA-	4,995
Government Bonds A	1,195
Corporate Bonds AAA	41,380
Corporate Bonds AA+	45,243
Corporate Bonds AA	69,780
Corporate Bonds AA-	47,074
Corporate Bonds A+	87,863
Corporate Bonds A	107,627
Corporate Bonds A-	98,859
Corporate Bonds BBB+	70,841
Corporate Bonds BBB	39,156
Corporate Bonds BBB-	17,319
Corporate Bonds BB+	1,616
Corporate Bonds BB-	7,395
Corporate Bonds B+	1,196
Collateralised Securities AAA	25,441
Collateralised Securities AA+	285,910
Cash & Cash Equivalents	119,754
Collective Investment Funds	28,792
Equities	77,163
Investment in Subsidiary	8,208
Property (Other than own use)	2,684
Property, Plant & Equipment held for own use	239
Total	**1,248,985**

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

Managing & Mitigating the Risk

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

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

The investment strategy is developed by reference to an investment risk budget, set annually by the directors as part of the overall risk budgeting framework of the business. In 2016, the investment risk budget was set at a level such that the amount of an investment loss, at the 1-in-200 Tail Value at Risk ('TVaR') level, was limited to the Group's excess capital (above the regulatory minimum). This was the result of a complete investment strategy review carried out with the assistance of the Group's Investment Managers, New England Asset Management Ltd. The investment risk budget will be at a similar level in 2017.

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

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

For foreign exchange risk, the Group operates in five main currencies: US Dollars, Sterling, Canadian Dollars, Swiss Francs and Euros. Transactions in all currencies are converted to the US Dollar functional currency on initial recognition with any balances on monetary items at the reporting date being translated at the US Dollar spot rate.

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

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

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

- Investment returns to be greater than zero (i.e. investments are not destroying capital values)
- Maintaining asset duration at less than 2.5 times average reserve duration and no greater than 5 years at the maximum
- Risk of currency mismatch exposure at 1 in 100 years should not exceed 5% of US GAAP SHE
- Maintaining a portfolio with no greater than 15% in risk assets
- Maintaining a portfolio where various shocks are within stated appetites
- To maintain a minimum average rating of investment portfolios of A

C3 – Credit Risk

Nature of the Risk

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

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

Risk Profile & Concentration of the Risk

The tables below indicate the outstanding reinsurance balances as at 31/12/2016 split by age of the debt.

0 to 30 days	31 to 120 days	121 to 180 days	181 + days	Total ($'000)
7,506	4,289	1,054	23,013	35,863

The table below shows the largest exposure to individual issuers in the investment portfolio as at 31 December 2016.

Issuer	Asset Value ($'000)	%age of Total Assets
Guaranteed National Mortgage Association	222,952	17.9%

There are a few immaterial collateral arrangements with reinsurers.

Managing & Mitigating the Risk

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

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

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

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

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

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

- Reinsurers to have a minimum rating of A, unless specifically approved
- Maintaining a maximum exposure to any one reinsurer in any one programme of no more than 10% of SHE
- Maintaining no more than 1% of outward reinsurance balances over 180 days old
- Maintaining a1 in 100 year Credit loss not exceeding 10% of SHE
- No single holding of 5% or more (excluding government guaranteed securities) (this metric is calculated at a combined level)

C4 – Liquidity Risk

Nature of the Risk

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

Risk Profile & Concentration of the Risk

The table in Section C2 shows that a significant proportion of assets are readily realisable. This allied with the regular inflow of premiums means that a very high level of liquidity is maintained, should the need arise.

The total amount of the expected profit included in future premiums as calculated in accordance with Article 260(2) is $6.7m. Future premiums come from either current balances or unincepted premiums.

For current balances, it is assumed that they related to unearned business. Future profit is assessed by comparing these premiums to: i) losses derived by applying the same loss ratio as for the whole unearned premium reserve, which are derived from the Solvency II technical provision process and are based on actuarial IEULRs or corresponding budget loss ratios (for those lines not actuarially analysed); and ii) expenses derived by using the expense ratio of the whole unearned premium reserve, which are derived from the Solvency II technical provision process.

Managing & Mitigating the Risk

The Group's approach is to manage its liquidity position so that it can reasonably survive a significant individual or market loss event (details of the Group's management of its exposure to loss scenarios is provided above under the heading of Underwriting Risk). This means that the Group maintains sufficient liquid assets, or assets that can be converted into liquid assets at short notice and without any significant capital loss, to meet expected cash flow requirements. These liquid funds are regularly monitored using cash flow forecasting to ensure that surplus funds are invested to achieve a higher rate of return. The Group can also draw on parental funds to bridge short-term cash flow requirements, should the need arise.

C5 – Operational Risk

Nature of the Risk

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

Risk Profile & Concentration of the Risk

The tables below show the top 10 worst case and near term operational risks for HCCII from the most recent Operational Risk review. These are being reviewed again during 2017.

Worst Case

	HCCI
	Operational Risk
1	Wordings Risk
2	Aggregation Risk
3	High Profile Third Party Disputes
4	Data Quality Risk
5	Delegated Underwriting Risk
6	Capital Model Error of Failure in Use
7	Credit Rating Risk
8	Business Continuity Risk
9	Outwards Reinsurance Risk (increased price of RI)
10	Business Change Risk

Near Case

	HCCI
	Operational Risk
1	Wordings Risk
2	Aggregation Risk
3	Credit Rating Risk
4	Delegated Underwriting Risk
5	Failure to meey regulatory requirement
6	Capital Model Error of Failure in Use
7	Outwards Reinsurance Risk (increased price of RI)
8	Poor controls over outsourcing arrangements to unrelated third parties
9	Claims Management Risk
10	Failure to achieve desired staff culture and competence

Managing & Mitigating the Risk

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

- modelling of operational risk exposure and scenario testing;
- management review of activities;
- documentation of policies and procedures;
- preventative and detective controls within key processes;
- contingency planning; 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 our Conduct Risk Policy broadly defines conduct risk as "…the risk that detriment is caused to the company, our customers, clients or counterparties because of the inappropriate execution of our business activities."

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

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

- Total labour turnover
- Unexpected resignations from key staff
- Maintaining the number of sick days per employee to be less than 3 per annum
- Maintaining less than 2 incidents outside of agreed Service Level Agreements SLAs per quarter
- No major projects significantly over budget and/or timescale
- No regulatory breaches or any regulatory actions
- Customers are treated fairly
- Maintaining a 1 in 250 operational risk loss at less than 7.5% of SHE
- Maintaining less than 20% chance of operational loss exceeding $25m

C6 – Other Material Risks

As discussed in Section E6 of this report, Brexit represents a material risk to the Group (and the Company).

Top 10 Risks

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

As at September 2016	Qualitative Measure			
Risks	Control Description Score	Residual Risk Score		
	Control Score	Prob.	Imp.	RAG
Catastrophe/Large losses outside of business plan	4	2	2	4
Reserving risk	4	1	2	2
Systemic Losses outside of business plan	3	1	3	3
Selection risk	4	1	2	2
Investment Market Volatility	4	1	2	2
Aggregations risk	4	1	2	2
High profile Third Party disputes	4	1	1	1
Inadequate pricing methodology	3	1	2	2
Data quality risk	3	1	3	3
Delegated underwriting risk (outside of Group)	4	1	2	2

The following table shows the results of considering HCCII's top ten risks at a 1 in 10 year period, providing a more probable profile of the top ten risks facing the company.

As at September 2016	Qualitative Measure			
Risks	Control Description Score	Residual Risk Score		
	Control Score	Prob.	Imp.	RAG
Reserving risk	4	1	2	2
Selection risk	4	1	2	2
Aggregations risk	4	1	2	2
Failure of investment counterparty	4	1	2	2
Delegated underwriting risk (outside of Group)	4	1	2	2
Capital Model error or failure in use	4	2	1	2
Failure to comply with regulatory requirements.	4	1	2	2
Inadequate pricing methodology	3	1	2	2
Outward reinsurance risk (increased price of RI)	4	1	1	1
Poor controls over outsourcing arrangements to unrelated third parties	3	1	1	1

As there can be seen, there is a difference between the worst case scenario risks and the 1 in 10 year risks and this would be expected as certain risks are outliers on a worst case basis but are well controlled and so would not be expected to create a significant 1 in 10 year loss.

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

These scores are then multiplied together and the resultant score graded as green if it is deemed low impact, amber if medium impact and red if high impact.

Therefore, the key to ensuring that the more material risks, in terms of quantitative assessment, are properly controlled, the residual risk score should be green or at worst amber trending green. As can be seen from the above analysis, on both a worst case and a 1 in 10 year basis, all the residual risk scores are green.

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

Stress and Scenario Testing

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

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

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

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

Risk of Ruin via Reverse Stress Tests ('RST')

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

The two key risks for HCCII relate to Financial Lines Directors and Officers Liability (with regard to both reserving and underwriting risks) and European Windstorms.

The reverse stress tests considered are shown in the table below. The scenarios were considered on two bases; one with no allowance for management actions and one with management actions.

Scenario	Description, with no allowance for management actions	Description, with allowance for management actions (bold highlights differences)
RST1: Two cat events	Two large European Windstorms occurring in the same quarter; Underwriting outside authority, which is not picked up in time for second event (with consequential regulatory fine); Reinsurance recoveries run out for second event; also, reinsurer dispute (due to writing outside authority) and failure; Investment failure also considered; however, in light of historical experience, external investment consultant analysis and portfolio make up, no impact assumed.	Two large European Windstorms occurring in the same quarter; **Underwriting outside authority, which is picked up in time for second event (with consequential reduced regulatory fine);** **Reinsurance recoveries on existing RI program run out for second event, but additional RI purchase assumed (at increased cost); also, reinsurer dispute (due to writing outside authority) and failure;** Investment failure also considered; however, in light of historical experience, external investment consultant analysis and portfolio make up, no impact assumed
RST2: Inflationary Event	Shareholder actions leading to significant additional losses on Financial Lines (D&O component only), both on historical business and the business currently being underwritten; Significant losses on investment portfolio; Inflation impact on Liability Reserves Economic turmoil impacts the underwriting performance of other lines; Underwriting outside authority that is not picked up (with consequential regulatory fine); Reinsurer dispute and failure.	**Shareholder actions leading to significant additional losses on HCC Global (D&O component only), both on historical business and the business currently being underwritten. Management action reduces losses on the underwriting component;** Significant losses on investment portfolio; Inflation impact on Liability Reserves **Economic turmoil impacts the underwriting performance of other lines. Management action reduces losses on the underwriting component;** **Underwriting outside authority that is not picked up (with consequential regulatory fine). Management action addresses control failures when they are identified. There is little chance of mitigating losses, but there is a reduced regulatory fine;** Reinsurer dispute and failure.

Risk of multiple events on business model via Compound Scenarios

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

The compound scenarios assessed were as follows:

- CS1: Loss of key underwriting team, whereby the Property Treaty team is assumed to leave for a competitor and takes its existing book of business.
- CS2: Loss of key revenue stream, whereby the most material broker significantly reduces the amount of business placed with TM HCC as part of a strategic review of its panel of insurers. The scenario includes the procurement costs to replace business and loss of profits on business not written.
- CS3: Cat event and Business Interruption, whereby a major European windstorm and UK flooding occur in the middle of 1 January renewals.
- CS4: Credit and Surety, whereby a major UK construction company completely fails with a "stressed" environment also allowed for other construction companies.

Potential impacts of Reverse Stress Tests and Compound Scenarios

Each of the scenarios has been analytically assessed, with the expert judgements and assumptions recorded, along with the potential financial impact.

For the RSTs, we show the impacts both with and without management actions. Note some of the return periods are not populated in the summary shown as the selection has been made at a more granular level (eg CS4 where the return period selection is at the combined Credit/Surety underwriting loss level).

The business has assessed that the size of event that would potentially render the business unviable is $490m and it is this level of loss that was used as a benchmark for deriving applicable reverse stress tests. The $490m figure is from the difference between the current Solvency II net asset positon and the MCR. Smaller reductions in net assets (which might, for example, initially lead to a breach of the SCR) are assumed to be replenished through the revolving loan facility described previously. It is believed that this facility will be available due to the significant diversification in business between the International section and the rest of the TM Group.

ECM Validation of Stress and Reverse Stress Test Results

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

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

Emerging Risks

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

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

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

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

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

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

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

	Risk	Risk Owner	Understanding	Change in likelihood	Threats	Opportunities
Technology	Cloud (security)	RP		→	- Cannot provide same indemnification regarding data security (Data Protection) - Loss of control - Aggregation risk - Cost	- Reduced infrastructure costs - Flexible capacity - Access anytime, anywhere - Less maintenance, IT resource available for other projects
	Nanotechnology	CJ		→	- Pollution/hazardous to life and environment - Product recall due to unsafe product after research - Latent claims e.g. asbestos	- New stronger materials e.g. for cars/buildings - Better environmental clean-ups - Medicines cheaper
	Drones	TH		→	- Cyber attack on drones - Collisions with people/property - Privacy concerns - PL for manufacturers	- Better/safer surveys - Claims adjusters see impacted areas therefore reducing settlement times
	Blockchain	TH		→	- Scalability - Understanding - Are systems/processes ready?	- Increase effectiveness in fraud prevention & detection - Reduced admin cost
	Driverless cars	SB		→	- Who would have liability? - Cyber risk - Changes to manufacturing insurance	
Regulation	IFRS/UK GAAP	KLL		→	- Resource strain - Impact on reporting deadlines - Data storage, analytics and collection - Cost of implementation	
Geopolitical	Decommissioning of oil rigs	SB		→	- Increasing number of oil and gas platforms need to be decommissioned - Potential for claims for damage to third-party property and liability exposure e.g. pollution	- Potential for new product to be developed to cover oil rig decommissions specifically
	Local Terrorism	TH		→	- Increasing terrorism threats across the globe, increasing aggregation risk etc.	
	Political unrest	TH		→	- Political unrest is increasing around the world, increasing claims for those areas	
Operational	Succession Planning	AB		→	- Potential for executive management team and lead underwriters to retire at a similar time	- Potential to rehire and bring 'fresh eyes' to the business

C7 – Any other information

There is no additional information that requires disclosure.

Section D – Valuation for Solvency Purposes

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

The Group and Company financial statements have been prepared in conformity with UK GAAP on a going concern basis. The details of the accounting policies used by the company can be found in Note 3 of the attached financial statements of HCCII, which are included in Section G of this report.

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

Group Balance Sheet Reconciliation from UK GAAP to Solvency II	UK GAAP	SII Reclass Adj	SII Valuation Adj Tech. Provisions	SII Valuation Adj DAC & UPR	SII Valuation Adj Other	Solvency II
As at 31 December 2016	**USD'000**	**USD'000**	**USD'000**	**USD'000**	**USD'000**	**USD'000**
Assets						
Investments	1,110,437	7,903				1,118,340
Goodwill	7,725				(7,725)	0
Deferred acquisition costs	73,148			(73,148)		0
Property, plant & equipment held for own use	2,836					2,836
Reinsurance recoverables from non-life	333,060		(29,509)	(51,385)		252,166
Insurance and intermediaries receivables	101,032		(88,642)			12,390
Reinsurance receivables	23,075		0			23,075
Receivables (trade, not insurance)	54,057		0			54,057
Cash and cash equivalents	121,385		0			121,385
Any other assets, not elsewhere shown	7,936	(7,903)	0			33
Total assets	**1,834,691**	**0**	**(118,151)**	**(124,533)**	**(7,725)**	**1,584,282**
Liabilities						
Technical provisions - non-life	993,666		75,024	(281,353)		787,337
Deferred tax liabilities	16,345				634	16,979
Insurance & intermediaries payables	15,814					15,814
Reinsurance payables	51,447		(28,458)			22,989
Any other liabilities, not elsewhere shown	125,905			(11,232)		114,673
Total liabilities	**1,203,177**	**0**	**46,566**	**(292,585)**	**634**	**957,792**
Excess of assets over liabilities	**631,514**	**0**	**(164,717)**	**168,051**	**(8,359)**	**626,490**

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

Company Balance Sheet Reconciliation from UK GAAP to Solvency II		UK GAAP	SII Reclass Adj	SII Valuation Adj Tech. Provisions	SII Valuation Adj DAC & UPR	SII Valuation Adj Other	Solvency II
As at 31 December 2016	Note	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Assets							
Investments	D1 (1)	1,118,645	7,903				1,126,548
Goodwill	D1 (2)	7,725				(7,725)	0
Deferred acquisition costs	D1 (3)	73,148			(73,148)		0
Property, plant & equipment held for own use	D1 (4)	2,684					2,684
Reinsurance recoverables from non-life	D2	333,060		(29,509)	(51,385)		252,166
Insurance and intermediaries receivables	D1 (5)	98,358		(88,642)			9,716
Reinsurance receivables	D1 (5)	23,075		0			23,075
Receivables (trade, not insurance)	D1 (5)	50,294		0			50,294
Cash and cash equivalents	D1 (6)	119,754		0			119,754
Any other assets, not elsewhere shown	D1 (7)	7,934	(7,903)	0			31
Total assets		**1,834,677**	**0**	**(118,151)**	**(124,533)**	**(7,725)**	**1,584,268**
Liabilities							
Technical provisions - non-life	D2	993,666		75,024	(281,353)		787,337
Deferred tax liabilities	D3 (1)	16,345				634	16,979
Insurance & intermediaries payables	D3 (2)	12,698					12,698
Reinsurance payables	D3 (2)	51,447		(28,458)			22,989
Any other liabilities, not elsewhere shown	D3 (3)	133,551			(11,231)		122,320
Total liabilities		**1,207,707**	**0**	**46,566**	**(292,584)**	**634**	**962,323**
Excess of assets over liabilities		**626,970**	**0**	**(164,717)**	**168,051**	**(8,359)**	**621,945**

All technical provisions reside within the company, in addition the companies excess of assets over liabilities comprise 99.3% of the Group position , therefore the Valuation section below presents the Company position.

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

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

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

D1 – Assets

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

D1 (1) - Investments

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

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

Solvency II Reconciliation

The $7.9m Solvency II reclassifications made to the value of the investments is to classify accrued interest on bonds and equities as investments instead of prepayments and accrued interest as shown under UK GAAP.

Valuation

Bonds, Securities, Equities and Collective Investment Undertakings

The Company values its financial investments at fair value in accordance with FRS 102 which is consistent with the requirement under Solvency II. The Company categorises financial investments into levels 1, 2 and 3, reflecting the categorization criteria specified in FRED 62.

FRED 62 defines the disclosure of investments levels as follows:

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

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

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

The Company's Level 2 investments include most of its fixed maturity securities, which consist of U.S. government agency securities, foreign government securities, municipal bonds (including those held as restricted securities), corporate debt securities, bank loans, middle market senior loans, foreign debt securities, mortgage-backed and asset-backed securities (including collateralized loan obligations). The Company measures fair value for the majority of its Level 2 investments using matrix pricing and observable market data, including benchmark securities or yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, bids, offers, default rates, loss severity and other economic measures. The Company measures fair value for its structured securities using observable market data in cash flow models.

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

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

No markets for the Company's investments were judged to be inactive at period end. Based on these procedures, the Company did not adjust the prices or quotes provided by its independent pricing services, third party investment managers as of 31 December 2016.

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

The Company has no Level 3 securities.

Participations and related undertakings

The participations and related undertakings included within HCCII's financial statements are in respect of the subsidiaries held by the Group holding company. These amounts are eliminated on consolidation in the assets of the Group. The investments in related undertakings are valued on an adjusted equity basis and there are no Solvency II adjustments to UK GAAP.

Property (other than for own use)

The investment property, which consists of long leasehold industrial units, was valued by the directors at 31 December 2012 on an open market basis, using reasonable judgements and contemporary evidence available. On an annual basis, the directors consider the open market valuation of the Group's land and buildings held as an investment. Should the valuation fall below its cost, the deficit is written off as impairment through the profit and loss account.

D1 (2) – Goodwill

Company Reconciliation from UK GAAP to Solvency II USD'000	UK GAAP	SII Valuation Adj Other	Solvency II
Goodwill	7,725	(7,725)	0

Solvency II Reconciliation & Valuation

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

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

D1 (3) – Deferred Acquisition Costs

Company Reconciliation from UK GAAP to Solvency II USD'000	UK GAAP	SII Valuation Adj DAC & UPR	Solvency II
Deferred acquisition costs	73,148	(73,148)	0

Solvency II Reconciliation & Valuation

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

D1 (4) – Property, Plant and Equipment

Company Reconciliation from UK GAAP to Solvency II USD'000	UK GAAP	Solvency II
Property, Plant & Equipment held for own use	2,684	2,684

Solvency II Reconciliation

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

Valuation

The Company values Property, Plant and Equipment in the financial statements at cost, or open market valuation, less accumulated depreciation and accumulated impairment expense. Cost includes the original price, costs directly attributable to bringing the asset to its working condition for its intended use, dismantling and restoration costs. Tangible assets are capitalised and depreciated on a straight line basis over their estimated useful lives.

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

For Solvency II purposes, the Directive states that Property, Plant and Equipment should be valued on a basis that reflects its fair value. The Company believes that the depreciated cost of Property, Plant and Equipment held at 31 December 2016 is a materially fair approximation for fair market value.

D1 (5) – Receivable

Company Reconciliation from UK GAAP to Solvency II USD'000	UK GAAP	SII Valuation Adj Tech. Provisions	Solvency II
Insurance and intermediaries receivables	98,358	(88,642)	9,716
Reinsurance receivables	23,075	0	23,075
Receivables (trade, not insurance)	50,294	0	50,294
Total assets	**171,727**	**(88,642)**	**83,085**

Solvency II Reconciliation

The Solvency II valuation adjustment to Insurance and intermediaries receivables reflects not yet due balances that are reclassed to the technical provisions. The remaining balances are due or past due.

Valuation

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

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

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

D1 (6) – Cash and cash equivalents

Company Reconciliation from UK GAAP to Solvency II USD'000	UK GAAP	Solvency II
Cash and cash equivalents	119,754	119,754

Solvency II Reconciliation & Valuation

There are no Solvency II valuation adjustments to the cash and cash equivalents as they are held at fair value under UK GAAP and Solvency II.

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

D1 (7) – Other Assets

Company Reconciliation from UK GAAP to Solvency II USD'000	UK GAAP	SII Reclass Adj	Solvency II
Any other assets, not elsewhere shown	7,934	(7,903)	31

Solvency II Reconciliation & Valuation

The $7.9m Solvency II adjustment is in respect of the accrued interest on the bonds and equities which is reclassed from prepayments and accrued interest in UK GAAP to investments under Solvency II.

D1 (8) – Other Matters

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

D2 - Technical Provisions

At 31 December 2016, the total value of net technical provisions was $529.4m, which included $42.4m in respect of the risk margin. The analysis of technical provisions by material lines of business was as follows:

Company Reconciliation from UK GAAP to Solvency II USD'000	UK GAAP	SII Valuation Adj Tech. Provisions	SII Valuation Adj DAC & UPR	Solvency II
Technical provisions – non-life	993,666	75,024	(281,353)	787,337
Reinsurance recoverables from non-life	(333,060)	29,509	51,383	(252,168)
Net technical provisions – non-life	660,606	104,533	(229,970)	535,169

Solvency II Reconciliation

The main Solvency II valuation adjustments are set out in diagram page 60 and the table in page 61.

Valuation

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

Company Net Technical Provisions	Amounts in USD $000s		
	Net Best Estimate	Risk Margin	Net Technical Provision
Medical expense insurance	8,892	269	9,161
Income protection insurance	(372)	(218)	(590)
Workers' compensation insurance	16,887	1,545	18,432
Marine, aviation and transport insurance	31,338	2,309	33,647
Fire and other damage to property insurance	7,032	512	7,544
General liability insurance	260,887	27,911	288,798
Credit and suretyship insurance	97,510	4,100	101,610
Assistance	197	13	210
Miscellaneous financial loss	(186)	(2)	(188)
Non-proportional health reinsurance	4,189	167	4,356
Non-proportional casualty reinsurance	36,446	4,094	40,540
Non-proportional marine, aviation and transport reinsurance	14,538	1,111	15,649
Non-proportional property reinsurance	14,987	1,013	16,000
Total	492,345	42,824	535,169

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

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

The actuarial function's involvement in the whole reserving process allows us to opine that the technical provisions at 31 December 2016 are sufficient and the methods / assumptions used are appropriate given the nature, scale and complexity of HCCII's risk profile.

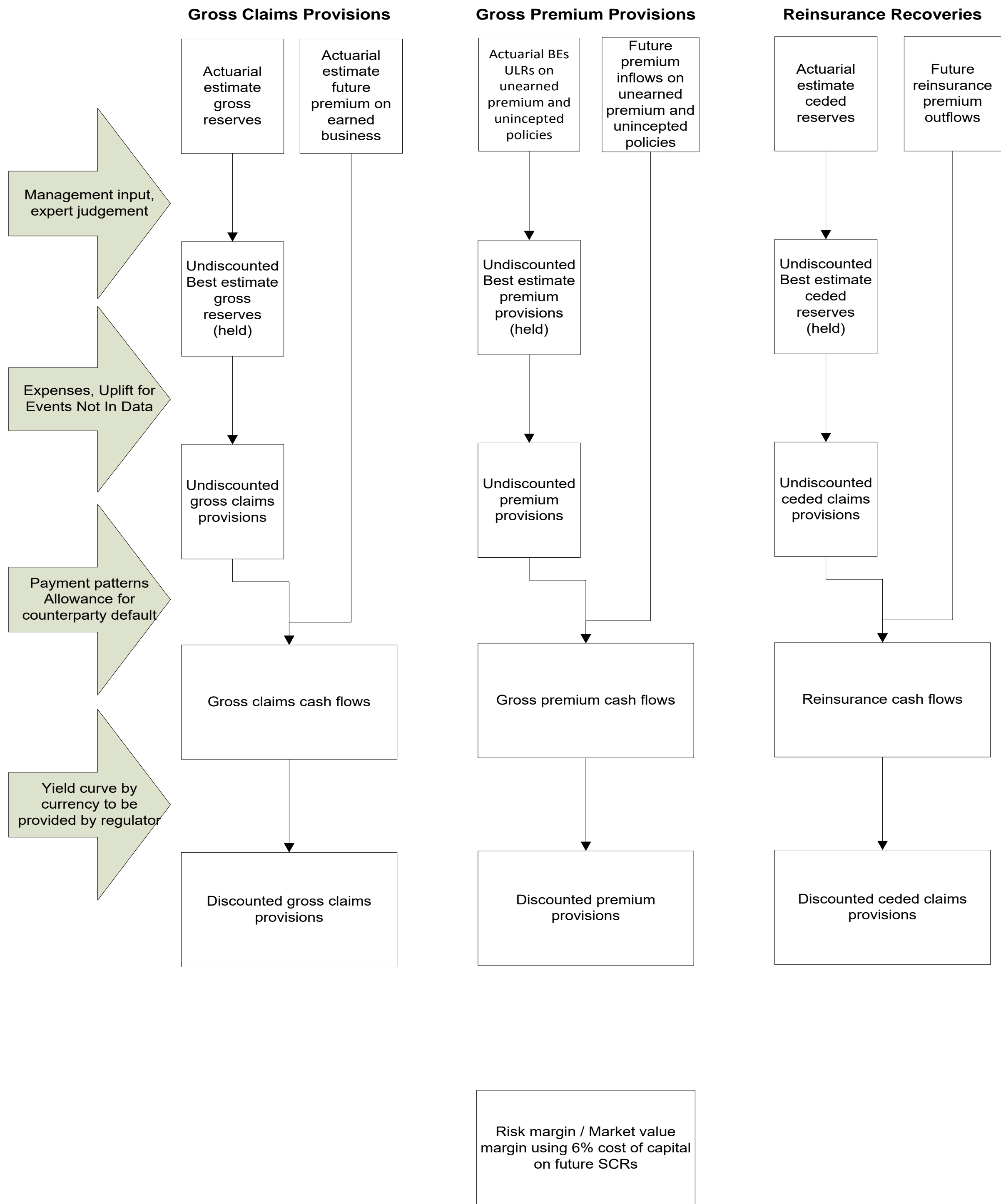
Sufficiency in this context means that we are satisfied that the process for estimating technical provisions is thorough and proportionate, and the resulting amounts are within a reasonable range that might be calculated by a number of different qualified people using various reasonable methods and assumptions.

The methodologies used are consistent across all material lines of business and the key items are summarised below. In addition, we have included the section "Assumptions about future management actions " looking at identified future enhancements .

Technical Provisions Calculation Overview

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

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



Undiscounted Best Estimate Claims Provisions

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

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

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

Full analyses of reserves take place at least yearly. During the full analyses, attritional claims and large losses gross and net of reinsurance are projected to ultimate using the following four standard actuarial methods (see the actuarial reserving report for a more detailed description of these methods):

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

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

Undiscounted Best Estimate Premium Provisions

The starting point of the premium provisions is the unearned premium reserve (UPR) and, for unincepted, an extract of policies that have an inception date post the valuation date and a bound date pre the valuation date.

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

The actuarial best estimate ultimate loss ratios arise from actuarial reserving analysis and trended to allow for claims inflation and changes in premium rates by line of business and year of account. For prospective years of account (relevant in the case of unincepted business), the actuarial best estimate loss ratio constitutes an average expectation based on relevant historical experience on prior years and adjusted where appropriate for changes in mix of business and anticipated premium rate movements and loss trends. Where the actuarial best estimate loss ratio does not include provision for large losses or cats, we apply loads consistent with the internal model large loss and catastrophe parameters, to account for the future occurrence of these events.

Undiscounted Best Estimate Reinsurance Provisions

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

For lines of businesses LOBs with quota share (QS) reinsurance, the ceded cash flows are calculated by applying the ceded percentage to the estimated future claims. The cash flows are then calculated using ceded payment patterns.

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

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

Losses-occurring (LOD) reinsurance contracts that incept in the future will respond to losses that occur during the reinsurance policy period. The following material lines have LOD reinsurance:

- Property
- Property Treaty
- Energy
- Marine Hull
- Accident & Health

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

Risks-attaching (RAD) reinsurance contracts that incept in the future will respond to losses incurred on policies that incept during the reinsurance policy period. The following material lines have RAD reinsurance:

- Public Liability
- Employers' Liability
- Contractors All Risks
- UK Credit & Surety
- US Credit
- UK Professional Indemnity
- HCC Global D&O

The bound but not incepted (BBNI) inward policies, included in HCCII technical provisions relating to these lines as at 31 December 2016, will attach to legally obliged (LO) reinsurances incepting during 2017, and in addition a corresponding portion of the cost of reinsurance and expected ceded losses is included in the technical provisions to the extent that it is not included in the LO reinsurances incepting during 2017.

<table>
<tr><th>Contract status at point of valuation</th><th>Reinsurance premiums</th><th>Reinsurance recoveries</th></tr>
<tr><td>Incepted, bound</td><td rowspan="2">Future premiums due allowed for in full</td><td rowspan="3">Full allowance for expected future recoveries associated with losses arising from all incepted as well as bound-but-not-incepted inwards business that falls within scope of the technical provisions (where the purchase of reinsurance is subject to future management actions it is assumed that cover will be renewed on existing terms)</td></tr>
<tr><td>Unincepted, bound</td></tr>
<tr><td>Unincepted, not bound</td><td>Allow for a portion of expected premiums payable under such reinsurance contract(s) relating to the run-off of existing incepted and bound-but-not-incepted inwards business</td></tr>
</table>

Events Not In Data ('ENID')

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

At least three types of events should be considered:

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

We add an explicit load to the best estimate for ENIDs. We assume the selected distribution and Coefficients of Variations ('CVs'), selected as part of the internal model parameterisation, are for a truncated distribution i.e. we assume that the level for realistically foreseeable events is 1-in-200/99.5%.

The explicit provision for ENIDs increases total technical provisions by about 2%.

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

Counterparty Default Risk

The traditional reinsurer bad debt provision is generally increased to include potential losses on recoveries on premium provisions, and any other counterparties. As part of internal model development, we decided and documented that counterparty default risk on policyholder debtors, deposits with ceding institutions, and letters of credit is not material and thus is not included in technical provisions.

Discounted Cash Flows

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

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

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

Assumptions about policyholder behaviour

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

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

Risk Margin

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

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

The method used involves the following three step process:

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

Key options and guarantees within the calculation of the technical provisions

All guarantees and options were identified and, after discussion between underwriters, management and actuarial, have been deemed immaterial and therefore not included in the calculation of technical provisions.

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

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

HCCII NET Technical Provisions: Comparison to Prior Valuations (USD'000; YE 2016 FX Rates)		
	31 December 2016	**31 December 2015 (Unaudited)**
Claims Provisions	392,751	378,279
Premium Provisions	99,593	82,072
Total excluding Risk Margin	492,344	460,351
Risk Margin	42,825	45,081
Total including Risk Margin	**535,169**	**505,432**

Between 31 December 2015 (NB comparative figures are not subject to audit) and 31 December 2016, the technical provisions increased by $29.7m; with claims provisions and premium provisions increasing by $14.5m and $17.5m respectively. The claims provisions increase was driven by movements in reserves on Financial Lines and Energy lines. The premium provisions increase was driven by increases in business over time on the MIS and Surety UK lines.

The risk margin has decreased slightly from around 10% to 9% of the best estimate provisions at both valuations. The decrease was due to premium risk being a larger driver of SCR at year-end 2016. As premium risk is not present in the technical provisions after the first year future SCRs are lower leading to a lower risk margin. Premium risk has become a larger driver of the SCR due to model development during 2016.

Segmentation

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

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

Internal data improvements, procedural changes and significant deficiencies

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

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

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

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

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

Two areas of limitation have been identified, which are discussed below, along with the adjustments/approximations used to remediate them:

- *Lack of IBNRs available at the required level of granularity (eg, origin period / currency / risk code combinations)* - This is remediated by incorporating allocation algorithms in the Pillar 3 data mart.
- *Issues around being able to provide all necessary period end data in a timely fashion to be able to turnaround the technical provision calculations within the required deadlines* – This is not an issue for year-end calculations, but for other quarter ends, it is remediated by taking an early cut-off of data (ie the previous month end). This applies to all items except for current balances (which are as at the actual quarter end).

Group adjustments to individual technical provisions

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

Third country insurance and reinsurance undertakings

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

Material changes to assumptions or methods since the prior period

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

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

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

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

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

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

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

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

- The technical provisions are most sensitive to the earned reserve levels and the loss ratios assumed in the unearned provisions.
- The technical provisions are also sensitive to the discount rate used, to the extent that if discount rates returned to the levels seen before the financial crisis, this would have a material impact on the technical provisions.
- The technical provisions are not so sensitive to expense overruns or changes to the risk margin calculation.

Transitional provisions on technical provisions, matching adjustment and volatility adjustment

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

The use of simplified approaches

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

Assumptions about future management actions

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

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

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

Differences to UK GAAP Technical Provisions

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

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

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

Reconciliation of Company's Net Technical Provisions: UK GAAP to Solvency II at 31 December 2016 ($'000)	
UK GAAP Technical Provisions	**660,606**
Removal of booked reserve margins	(36,687)
Allowance for events not in data (binary events)	7,388
Change of expense basis	26,326
Adjustments to earned provisions	1,420
Removal of unearned UK GAAP provisions	(229,968)
Future premium iro unearned incepted business	(59,063)
Projected losses arising from UPR	121,756
Future premium iro unincepted business	(7,532)
Projected losses arising from unincepted contracts	19,305
Discounting credit	(11,207)
Inclusion of risk margin	42,825
SII Technical Provisions	**535,169**

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

D3 – Other Liabilities

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

D3 (1) – Deferred Tax

Company Reconciliation from UK GAAP to Solvency II USD'000	UK GAAP	SII Valuation Adj Other	Solvency II
Deferred tax liabilities	16,345	634	16,979

Solvency II Reconciliation

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

Valuation

Deferred tax under UK GAAP is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is calculated at the rates at which it is expected that the tax will arise. Deferred tax is recognised in the Profit and Loss Account for the period, except to the extent that it is attributable to a gain or loss that is recognised directly in the Statement of Comprehensive Income. Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax balances are not discounted. The deferred tax liability is comprised principally of tax payable over the next six years resulting from the reversal of the equalisation reserve at 1 January 2016.

D3 (2) – Payables

Company Reconciliation from UK GAAP to Solvency II USD'000	UK GAAP	SII Valuation Adj Tech. Provisions	Solvency II
Insurance & intermediaries payables	12,698		12,698
Reinsurance payables	51,447	(28,458)	22,989
Total liabilities	**64,145**	**(28,458)**	**35,687**

Solvency II Reconciliation

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

Valuation

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

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

D3 (3) – Other liabilities

Company Reconciliation from UK GAAP to Solvency II USD'000	UK GAAP	SII Valuation Adj DAC & UPR	Solvency II
Any other liabilities, not elsewhere shown	133,551	(11,231)	122,320

Solvency II Reconciliation

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

Valuation

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

D3 (4) – Other Provisions and Contingent Liabilities

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

D3 (5) – Employee benefits

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

D4 – Alternative methods for valuation

The Company has not applied any alternative methods of valuation.

D5 – Any other information

There is no additional information that requires disclosure.

Section E – Capital Management

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

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

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

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

E1 – Own Funds

Group Own Funds

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

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

Reconciliation reserve	$'000
Excess of assets over liabilities	626,490
less:	
Own Share Capital	249,237
Share premium	0
Deferred Tax Assets	0
Reconciliation reserve	377,253

Group Eligible Own Funds

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

Available Funds	Total $'000	Tier 1 unrestricted $'000	Tier 1 restricted $'000	Tier 2 $'000	Tier 3 $'000
Total eligible funds to meet the **SCR**	626,490	626,490	0	0	0
Total eligible funds to meet the minimum consolidated group SCR	626,490	626,490	0	0	0

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

Eligible own funds to cover capital requirements	$'000
Solvency II Net Assets	626,490
SF SCR	322,882
Minimum consolidated group SCR	116,254
Excess Net Assets over SF SCR	303,607
Excess Net Assets over Minimum consolidated group SCR	510,236
Percentage Excess over SF SCR	194%
Percentage Excess over minimum consolidated group SCR	539%

Solo Own Funds

At 31 December 2016, the own funds held by HCC International Insurance Company plc were $621.9m. All own funds qualify as Tier 1 core capital and are unrestricted. The Company's common equity consisted of share capital totalling $233.2m and retained earnings and other reserves totalling $388.7m.

During the year, the Company issued 8,837,000 ordinary $1 shares for total consideration of $8.8m.

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

Reconciliation reserve	$'000
Excess of assets over liabilities	621,946
less:	
Own Share Capital	233,242
Share premium	0
Deferred Tax Assets	0
Reconciliation reserve	388,704

Solo Eligible Own Funds

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

Available Funds	Total $'000	Tier 1 - unrestricted $'000	Tier 1 - restricted $'000	Tier 2 $'000	Tier 3 $'000
Total eligible funds to meet the **SCR**	621,946	621,946	0	0	0
Total eligible funds to meet the **MCR**	621,946	621,946	0	0	0

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

Eligible own funds to cover capital requirements	$'000
Solvency II Net Assets	621,946
SF SCR	321,886
MCR	116,254
Excess Net Assets over SF SCR	300,060
Excess Net Assets over MCR	505,692
Percentage Excess over SF SCR	193%
Percentage Excess over MCR	535%

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

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

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

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

Excess of Assets over Liabilities - Attribution of Valuation Differences	HCC Insurance Holdings (Int'l) - Group $'000	HCC International Insurance Co - Solo $'000
Arising from SII asset valuations	(250,410)	(250,410)
Arising from SII technical provisions	(206,330)	(206,330)
Arising from SII other liabilities	(39,055)	(39,055)
Total of reserves and retained earnings from financial statements	382,277	393,729
Reserves from financial statements adjusted for Solvency II valuation differences	**377,252**	**388,705**
Ordinary share capital	249,237	233,242
Excess assets over liabilities	**626,489**	**621,947**
Less: Foreseeable dividends	0	0
Add: Subordinated liabilities	0	0
Excess assets over liabilities	**626,489**	**621,947**
Add: Letters of credit	0	0
Total own funds	**626,489**	**621,947**

E2 – Solvency Capital Requirements and Minimum Capital Requirements

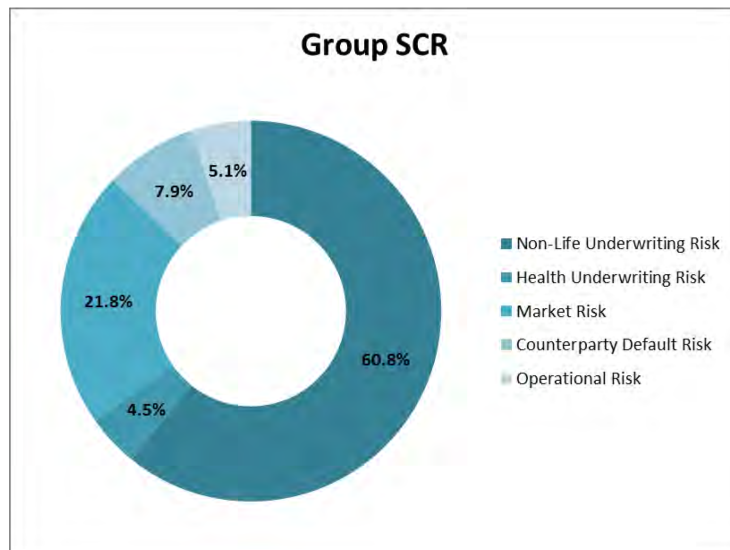
Group Solvency Requirement

At 31 December 2016, the Solvency Capital Requirement of HCC Insurance Holdings (International) Limited was $322.9m. The Solvency Capital Requirement is calculated as set out in Article 336 of the Delegated Acts.

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

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

Capital Requirement for each Risk Module ($'000)	Net Solvency Capital requirements
Non-Life Underwriting Risk	267,662
Health Underwriting Risk	19,592
Market Risk	95,975
Counterparty Default Risk	34,644
Diversification Credit	(90,005)
Operational Risk	22,335
Pre Deferred Tax Standard Formula SCR	350,203
Loss Absorbing Capacity of Deferred Tax	(27,321)
Final SF SCR	**322,882**



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

Overall Minimum Consolidated Group SCR	$000
Linear MCR	116,254
SCR	321,886
MCR cap	144,849
MCR floor	80,472
Combined MCR	116,254
Absolute floor of the MCR	4,050
Minimum Capital Requirement	**116,254**

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

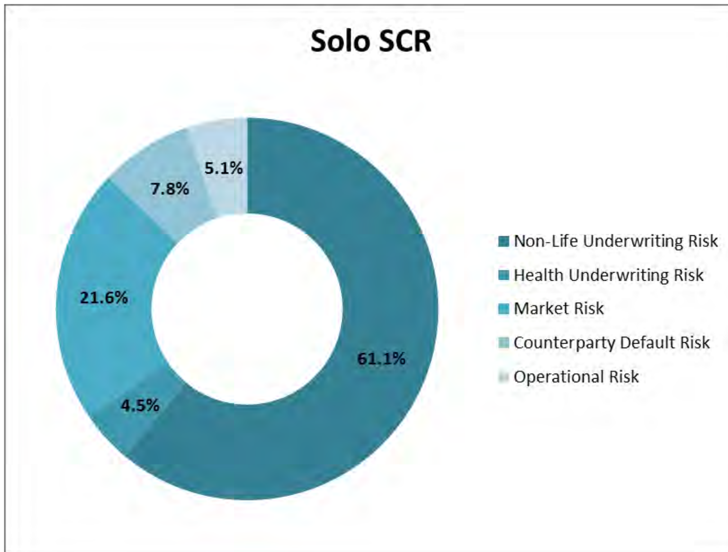
Solo Solvency Requirement

At 31 December 2016, the Solvency Capital Requirement of HCC International Insurance Company plc is $321.9m. The Solvency Capital Requirement is calculated using the Standard Formula. The Company does not apply any simplifications or undertaking specific parameters in the calculation.

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

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

Capital Requirement for each Risk Module ($'000)	Net Solvency Capital requirements
Non-Life Underwriting Risk	267,662
Health Underwriting Risk	19,592
Market Risk	94,515
Counterparty Default Risk	34,291
Diversification Credit	(89,188)
Operational Risk	22,335
Pre Deferred Tax Standard Formula SCR	349,207
Loss Absorbing Capacity of Deferred Tax	(27,321)
Final SF SCR	**321,886**



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

Overall MCR Calculation	$000
Linear MCR	116,254
SCR	321,886
MCR cap	144,849
MCR floor	80,472
Combined MCR	116,254
Absolute floor of the MCR	4,050
Minimum Capital Requirement	**116,254**

Calculation of MCR (inputs) $'000	Net (of reinsurance / SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
Medical expense insurance and proportional reinsurance	8,892	51,728
Income protection insurance and proportional reinsurance	0	6,165
Workers' compensation insurance and proportional reinsurance	16,887	8,949
Motor vehicle liability insurance and proportional reinsurance	0	0
Other motor insurance and proportional reinsurance	0	0
Marine, aviation and transport insurance and proportional reinsurance	31,338	16,113
Fire and other damage to property insurance and proportional reinsurance	7,032	7,320
General liability insurance and proportional reinsurance	260,887	151,227
Credit and suretyship insurance and proportional reinsurance	97,510	129,712
Legal expenses insurance and proportional reinsurance	0	0
Assistance and proportional reinsurance	197	551
Miscellaneous financial loss insurance and proportional reinsurance	0	1,675
Non-proportional health reinsurance	4,189	7,368
Non-proportional casualty reinsurance	36,446	8,881
Non-proportional marine, aviation and transport reinsurance	14,538	10,362
Non-proportional property reinsurance	14,987	47,432

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

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

Group

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

Company

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

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

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

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

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

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

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

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

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

E6 – Any other information

Brexit

The United Kingdom voted to leave European Union on 23 June 2016 and the subsequent triggering of Article 51 on 29 March 2017 presents the Group with the risk that business currently underwritten through pass porting and Branch regulation via EU directives (approximately 30% of gross written premium) would not be licensed. In response to this risk, HCCII executives are part of a broader Tokio Marine project team, which includes TM senior executives, formed to establish a new European insurance carrier. The involvement of TM senior executives in the project team demonstrates the commitment of TMHCC and its ultimate parent to maintaining the Company's business which is affected by Brexit.

Leveraging the Company's strong capital position, the Board anticipates that the establishment of the new insurance carrier will be affected through the creation of a new subsidiary of HCCII which will also carry an AA- rating which is important for the Financial Lines, Surety and Credit businesses and will benefit from a parental guarantee. In addition to underwriting new and renewal risks, it will also assume the existing portfolio of the European business through Part 7 transfers. The risk profile of the subsidiary will comprise HCCII's existing European business with some additional European business currently underwritten by other companies in the TM Group. The working group is working towards the approval of the new company to meet the timelines necessary to accomplish tacit renewals for 1.1.19 as well as Part 7 transfers of the branches.

The Company's Board monitors the progress of the project through quarterly reports from the Company's CEO and the working group; such reporting occurs more frequently if considered appropriate. Further, the Board will ensure that as a subsidiary of HCCII, the risk profile of the new Company will be within its risk appetite.

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

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

Other material information for capital management

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

Simplified calculation in the standard formula

No material simplifications are used in calculating the standard formula.

Section F – ANNEX: Quantitative Reporting Templates

This Annex lists the annual Quantitative Reporting Templates ('QRTs') submitted to the PRA on behalf of HCC International Insurance Company plc ('Company') and HCC Insurance Holdings (International) Limited ('Group') in respect of the year ended 31 December 2016.

The following QRTs are presented in this annex:

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

Solo Quarterly Reporting Templates

S.02.01 Balance sheet (annual solo)

Entity: **HCCI - HCC International Insurance Co PLc**
Scenario: **2016 Solvency II - Actual**
Period: **Year**
Category: **Default Original Amount**
Currency: **USD - US Dollars**

Assets

		Solvency II value C0010	Statutory accounts value C0020
Goodwill	R0010		7,725,285.09
Deferred acquisition costs	R0020		73,148,259.30
Intangible assets	R0030		
Deferred tax assets	R0040		
Pension benefit surplus	R0050		
Property, plant & equipment held for own use	R0060	2,683,830.25	2,683,830.25
Investments (other than assets held for index-linked and unit-linked contracts)	**R0070**	**1,126,548,279.13**	**1,118,645,288.35**
Property (other than for own use)	R0080	239,000.00	239,000.00
Holdings in related undertakings, including participations	R0090	8,207,801.80	8,207,801.80
Equities	*R0100*	*77,162,879.97*	*77,004,964.60*
Equities - listed	R0110	77,162,879.97	77,004,964.60
Equities - unlisted	R0120		
no split between listed and unlisted (Statutory column)			
Bonds	*R0130*	*1,012,146,526.05*	*1,004,401,450.64*
Government Bonds	R0140	65,445,436.45	64,844,573.58
Corporate Bonds	R0150	635,349,780.00	629,052,360.72
Structured notes	R0160		
Collateralised securities	R0170	311,351,309.60	310,504,516.34
no split beteween bonds (Statutory column)			
Collective Investments Undertakings	R0180	28,792,071.31	28,792,071.31
Derivatives	R0190		
Deposits other than cash equivalents	R0200		
Other investments	R0210		
Assets held for index-linked and unit-linked contracts	R0220		
Loans and mortgages	**R0230**		
Loans on policies	R0240		
Loans and mortgages to individuals	R0250		
Other loans and mortgages	R0260		
no split between loans & mortgages (Statutory column)			
Reinsurance recoverables from:	**R0270**	**252,166,328.77**	**333,059,959.59**
Non-life and health similar to non-life	R0280	252,166,328.77	333,059,959.59
Non-life excluding health	R0290	232,356,258.32	
Health similar to non-life	R0300	19,810,070.45	
no split between non-life excluding health and health similar to non-life (Statutory column)			333,059,959.59
Life and health similar to life, excluding health and index-linked and unit-linked	R0310		
Health similar to life	R0320		
Life excluding health and index-linked and unit-linked	R0330		
no split split between life excluding health and index-linked and unit-linked and health similar to life (Statutory column)			
Life index-linked and unit-linked	R0340		
Deposits to cedants	R0350		
Insurance and intermediaries receivables	R0360	9,715,766.04	98,358,222.57
Reinsurance receivables	R0370	23,075,282.50	23,075,282.50
Receivables (trade, not insurance)	R0380	50,293,666.71	50,293,666.71
Own shares (held directly)	R0390		
Amounts due in respect of own fund items or initial fund called up but not yet paid in	R0400		
Cash and cash equivalents	R0410	119,753,836.85	119,753,836.85
Any other assets, not elsewhere shown	R0420	30,557.28	7,933,548.19
Total assets	**R0500**	**1,584,267,547.53**	**1,834,677,179.40**

Liabilities

		Solvency II value C0010	Statutory accounts value C0020
Technical provisions - non-life	**R0510**	**787,336,208.27**	**993,666,158.22**
Technical provisions - non-life - no split between non - life (excluding health) and health (similar to non - life) (Statutory column)			**993,666,158.22**
Technical provisions - non-life (excluding health)	**R0520**	**736,167,189.43**	
TP calculated as a whole	R0530		
Best estimate	R0540	695,104,502.03	
Risk margin	R0550	41,062,687.40	
Technical provisions - health (similar to non-life)	**R0560**	**51,169,018.84**	
TP calculated as a whole	R0570		
Best estimate	R0580	49,406,240.28	
Risk margin	R0590	1,762,778.56	
TP - life (excluding index-linked and unit-linked)	**R0600**		
Technical provision - life - no split between health (similar to life) and life (excluding health, index-linked and unit - linked) (Statutory column)			
Technical provisions - health (similar to life)	**R0610**		
TP calculated as a whole	R0620		
Best estimate	R0630		
Risk margin	R0640		
TP - life (excluding health and index-linked and unit-linked)	**R0650**		
TP calculated as a whole	R0660		
Best estimate	R0670		
Risk margin	R0680		
TP - index-linked and unit-linked	**R0690**		
TP calculated as a whole	R0700		
Best estimate	R0710		
Risk margin	R0720		
Other technical provisions	R0730		
Contingent liabilities	R0740		
Provisions other than technical provisions	R0750		
Pension benefit obligations	R0760		
Deposits from reinsurers	R0770		
Deferred tax liabilities	R0780	16,978,597.08	16,345,019.17
Derivatives	R0790		
Debts owed to credit institutions	R0800		
Debts owed to credit institutions resident domestically	ER0801		
Debts owed to credit institutions resident in the euro area other than domestic	ER0802		
Debts owed to credit institutions resident in rest of the world	ER0803		
Financial liabilities other than debts owed to credit institutions	R0810		
debts owed to non-credit institutions	ER0811		
debts owed to non-credit institutions resident domestically	ER0812		
debts owed to non-credit institutions resident in the euro area other than domestic	ER0813		
debts owed to non-credit institutions resident in rest of the world	ER0814		
other financial liabilities (debt securities issued)	ER0815		
Insurance & intermediaries payables	R0820	12,697,662.72	12,697,662.72
Reinsurance payables	R0830	22,989,248.68	51,446,759.77
Payables (trade, not insurance)	R0840		
Subordinated liabilities	**R0850**		
Subordinated liabilities not in BOF	R0860		
Subordinated liabilities in BOF	R0870		
Subordinated liabilities - no split between not in BOF and in BOF (Statutory column)			
Any other liabilities, not elsewhere shown	R0880	122,319,683.56	133,551,189.73
Total liabilities	**R0900**	**962,321,400.31**	**1,207,706,789.61**

Excess of assets over liabilities	**R1000**	**621,946,147.22**	**626,970,389.79**

Excess of assets over liabilities minus Subordinated Liabilities in BOF		**621,946,147.22**	

S.05.01 Premiums, claims and expenses by line of business

Entity: **HCCI - HCC International Insurance Co PLc**
Scenario: **2016 Solvency II - Actual**
Period: **Year**
Category: **Solvency II: Statutory Account**
Currency: **USD - US Dollars**

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)												Line of Business for: accepted non-proportional reinsurance				Total
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	Health	Casualty	Marine, aviation, transport	Property	
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0200
Premiums written																		
Gross - Direct Business	R0110	58,835,229.87	12,913,873.67	9,718,777.52			22,635,550.65	3,614,093.88	187,672,912.90	149,043,985.62		145,019.29	10,561,572.54					455,141,015.94
Gross - Proportional reinsurance accepted	R0120		66,041.67					6,123,522.39				376,028.26	26,110.91					6,591,703.23
Gross - Non-proportional reinsurance accepted	R0130													9,347,447.63	13,949,500.79	12,418,807.52	51,181,436.24	86,897,192.18
Reinsurers' share	R0140	678,227.18	7,644,527.28	522,328.83			9,662,736.52	1,351,612.36	30,253,571.78	22,540,487.95		-666.57	8,196,676.80	2,334,789.23	4,164,631.17	7,546,134.75	10,655,619.00	105,550,676.28
Net	**R0200**	**58,157,002.69**	**5,335,388.06**	**9,196,448.69**			**12,972,814.13**	**8,386,003.91**	**157,419,341.12**	**126,503,497.67**		**521,714.12**	**2,391,006.65**	**7,012,658.40**	**9,784,869.62**	**4,872,672.77**	**40,525,817.24**	**443,079,235.07**
Premiums earned																		
Gross - Direct Business	R0210	54,715,749.21	12,387,001.40	9,851,640.14			22,738,061.87	3,084,556.78	187,609,784.72	147,846,480.97		160,654.52	9,265,267.31					447,659,196.92
Gross - Proportional reinsurance accepted	R0220		66,041.67					5,470,520.02				377,499.07	26,110.91					5,940,171.67
Gross - Non-proportional reinsurance accepted	R0230													9,710,864.51	15,549,690.37	21,017,833.71	50,855,540.34	97,133,928.93
Reinsurers' share	R0240	546,727.34	7,813,816.50	703,163.10			9,987,829.72	1,362,349.25	39,687,218.82	20,231,944.29		5,494.68	7,701,828.08	2,696,882.75	5,563,841.48	10,896,542.29	11,761,891.35	118,959,529.65
Net	**R0300**	**54,169,021.87**	**4,639,226.57**	**9,148,477.04**			**12,750,232.15**	**7,192,727.55**	**147,922,565.90**	**127,614,536.68**		**532,658.91**	**1,589,550.14**	**7,013,981.76**	**9,985,848.89**	**10,121,291.42**	**39,093,648.99**	**431,773,767.87**
Claims incurred																		
Gross - Direct Business	R0310	31,285,181.10	2,092,239.87	17,645,242.95			33,531,947.21	1,358,491.84	72,285,689.26	89,460,949.82		-35,870.36	1,768,691.96					249,392,563.65
Gross - Proportional reinsurance accepted	R0320	5,507.97	163,032.61	408,087.51			144,013.01	3,498,825.73	2,924,832.22	1,189,092.69		123,689.48	52,050.56					8,509,131.78
Gross - Non-proportional reinsurance accepted	R0330													7,705,379.05	7,199.29	24,813,977.43	4,554,467.39	37,081,023.16
Reinsurers' share	R0340	353,052.33	1,160,239.40	11,697,418.52			29,954,375.22	-182,823.23	8,651,322.84	43,222,349.08		-301.39	2,434,436.96	1,584,149.67	726,830.45	20,023,504.73	639,617.38	120,264,171.96
Net	**R0400**	**30,937,636.74**	**1,095,033.08**	**6,355,911.94**			**3,721,585.00**	**5,040,140.80**	**66,559,198.64**	**47,427,693.43**		**88,120.51**	**-613,694.44**	**6,121,229.38**	**-719,631.16**	**4,790,472.70**	**3,914,850.01**	**174,718,546.63**
Changes in other technical provisions																		
Gross - Direct Business	R0410																	0.00
Gross - Proportional reinsurance accepted	R0420																	0.00
Gross - Non-proportional reinsurance accepted	R0430																	0.00
Reinsurers' share	R0440																	0.00
Net	**R0500**																	**0.00**
Expenses incurred	**R0550**	**29,410,060.70**	**2,800,201.12**	**3,575,161.54**			**7,213,152.30**	**3,191,294.58**	**72,840,970.45**	**65,632,043.87**		**300,805.83**	**400,392.77**	**2,492,821.05**	**5,651,817.54**	**6,350,029.31**	**13,872,225.49**	**213,730,976.55**
Administrative expenses																		
Gross - Direct Business	R0610	1,922,173.67	1,246,429.87	1,025,592.87			3,481,380.38	251,017.56	25,447,549.65	39,246,661.93		17,903.79	633,987.77					73,272,697.49
Gross - Proportional reinsurance accepted	R0620		21,218.57					487,868.56				46,365.19						555,452.32
Gross - Non-proportional reinsurance accepted	R0630													1,269,537.68	1,843,961.73	3,745,422.34	8,295,436.92	15,154,358.67
Reinsurers' share	R0640																	0.00
Net	**R0700**	**1,922,173.67**	**1,267,648.44**	**1,025,592.87**			**3,481,380.38**	**738,886.12**	**25,447,549.65**	**39,246,661.93**		**64,268.98**	**633,987.77**	**1,269,537.68**	**1,843,961.73**	**3,745,422.34**	**8,295,436.92**	**88,982,508.48**
Investment management expenses																		
Gross - Direct Business	R0710	21,095.63	51,816.51	15,309.31			110,550.18		564,879.54	485,944.30			22,988.45					1,272,583.92
Gross - Proportional reinsurance accepted	R0720											511.25						511.25
Gross - Non-proportional reinsurance accepted	R0730													45,333.22	62,159.05	143,863.51	167,644.61	419,000.39
Reinsurers' share	R0740																	0.00
Net	**R0800**	**21,095.63**	**51,816.51**	**15,309.31**			**110,550.18**		**564,879.54**	**485,944.30**		**511.25**	**22,988.45**	**45,333.22**	**62,159.05**	**143,863.51**	**167,644.61**	**1,692,095.56**
Claims management expenses																		
Gross - Direct Business	R0810	5,390.49	97,919.29	408,087.50			144,013.01	102,350.07	2,921,870.90	1,193,522.58		993.52	52,002.90					4,926,150.26
Gross - Proportional reinsurance accepted	R0820		1,177.46					1,580.05										2,757.51
Gross - Non-proportional reinsurance accepted	R0830													66,650.15	195,814.48	99,808.64	89,002.56	451,275.83
Reinsurers' share	R0840																	0.00
Net	**R0900**	**5,390.49**	**99,096.75**	**408,087.50**			**144,013.01**	**103,930.12**	**2,921,870.90**	**1,193,522.58**		**993.52**	**52,002.90**	**66,650.15**	**195,814.48**	**99,808.64**	**89,002.56**	**5,380,183.60**
Acquisition expenses																		
Gross - Direct Business	R0910	27,471,493.10	3,924,844.60	2,126,630.06			3,945,516.06	866,012.61	53,482,774.84	24,186,305.63		49,008.24	2,651,692.12					118,704,277.26
Gross - Proportional reinsurance accepted	R0920		21,045.90					1,485,524.61				185,974.49						1,692,545.00
Gross - Non-proportional reinsurance accepted	R0930													2,002,207.42	4,925,920.09	3,062,656.26	5,645,466.40	15,636,250.17
Reinsurers' share	R0940	10,092.19	2,564,251.08	458.20			468,307.33	3,058.88	9,576,104.48	-519,609.43		-49.35	2,960,278.47	890,907.42	1,376,037.81	701,721.44	325,325.00	18,356,883.52
Net	**R1000**	**27,461,400.91**	**1,381,639.42**	**2,126,171.86**			**3,477,208.73**	**2,348,478.34**	**43,906,670.36**	**24,705,915.06**		**235,032.08**	**-308,586.35**	**1,111,300.00**	**3,549,882.28**	**2,360,934.82**	**5,320,141.40**	**117,676,188.91**
Overhead expenses																		
Gross - Direct Business	R1010																	0.00
Gross - Proportional reinsurance accepted	R1020																	0.00
Gross - Non-proportional reinsurance accepted	R1030																	0.00
Reinsurers' share	R1040																	0.00
Net	**R1100**																	**0.00**
Other expenses	R1200																	
Total expenses	**R1300**																	**213,730,976.55**

		Line of Business for: life insurance obligations						Life reinsurance obligations		Total
		Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Health reinsurance	Life reinsurance	
		C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0300
Premiums written										
Gross	R1410									0.00
Reinsurers' share	R1420									0.00
Net	**R1500**									**0.00**
Premiums earned										
Gross	R1510									0.00
Reinsurers' share	R1520									0.00
Net	**R1600**									**0.00**
Claims incurred										
Gross	R1610									0.00
Reinsurers' share	R1620									0.00
Net	**R1700**									**0.00**
Changes in other technical provisions										
Gross	R1710									0.00
Reinsurers' share	R1720									0.00
Net	**R1800**									**0.00**
Expenses incurred	**R1900**									
Administrative expenses										
Gross	R1910									0.00
Reinsurers' share	R1920									0.00
Net	**R2000**									**0.00**
Investment management expenses										
Gross	R2010									0.00
Reinsurers' share	R2020									0.00
Net	**R2100**									**0.00**
Claims management expenses										
Gross	R2110									0.00
Reinsurers' share	R2120									0.00
Net	**R2200**									**0.00**
Acquisition expenses										
Gross	R2210									0.00
Reinsurers' share	R2220									0.00
Net	**R2300**									**0.00**
Overhead expenses										
Gross	R2310									0.00
Reinsurers' share	R2320									0.00
Net	**R2400**									**0.00**
Other expenses	**R2500**									
Total expenses	**R2600**									
Total amount of surrenders	R2700									0.00

S.05.02 Premiums, claims and expenses by country

Entity: **HCCI - HCC International Insurance Co PLc**
Scenario: **2016 Solvency II - Actual**
Period: **Year**
Category: **Solvency II: Statutory Account**
Currency: **USD - US Dollars**

Home Country - non-life obligations

		Total Top 5 and home country	Home Country	Top 5 countries (by amount of gross premiums written) - non-life obligations					+
		C0070	C0010	C0020	C0030	C0040	C0050	C0060	
R0010			United Kingdom	France	Germany	Ireland	Italy	Spain	
		C0140	C0080	C0090	C0100	C0110	C0120	C0130	
Premium written									
Gross - Direct Business	R0110	**375,882,671.96**	279,204,028.98	9,921,055.02	18,016,495.62	14,292,650.32	7,538,751.62	46,909,690.41	
Gross - Proportional reinsurance accepted	R0120	**5,756,531.86**	4,249,632.06	27,996.20	0.00	138,749.86		1,340,153.75	
Gross - Non-proportional reinsurance accepted	R0130	**33,221,189.16**	20,964,521.03	1,594,611.26	4,227,804.86	2,415,674.22	2,845,627.17	1,172,950.63	
Reinsurers' share	R0140	**67,552,751.76**	27,809,983.17	4,394,298.47	5,832,653.29	2,971,264.74	1,545,766.92	24,998,785.16	
Net	**R0200**	**347,307,641.23**	**276,608,198.89**	**7,149,364.01**	**16,411,647.19**	**13,875,809.65**	**8,838,611.87**	**24,424,009.63**	
Premium earned									
Gross - Direct Business	R0210	**372,373,934.60**	279,018,292.88	8,721,753.83	17,749,912.94	14,239,698.59	6,781,217.66	45,863,058.71	
Gross - Proportional reinsurance accepted	R0220	**5,151,969.34**	3,804,048.28	25,042.58	0.00	124,111.67		1,198,766.81	
Gross - Non-proportional reinsurance accepted	R0230	**31,288,301.57**	18,744,666.44	1,661,409.10	4,246,160.50	2,504,099.51	2,812,662.11	1,319,303.91	
Reinsurers' share	R0240	**73,190,830.17**	32,559,045.23	4,697,442.14	6,800,608.44	3,145,767.82	2,105,354.10	23,882,612.44	
Net	**R0300**	**335,623,375.34**	**269,007,962.37**	**5,710,763.37**	**15,195,464.99**	**13,722,141.95**	**7,488,525.68**	**24,498,516.99**	
Claims incurred									
Gross - Direct Business	R0310	**177,573,840.49**	100,552,773.20	7,649,171.39	19,346,488.54	2,479,404.70	842,690.50	46,703,312.16	
Gross - Proportional reinsurance accepted	R0320	**6,586,626.04**	4,304,063.78	119,448.52	105,711.73	303,981.93	134,341.44	1,619,078.63	
Gross - Non-proportional reinsurance accepted	R0330	**4,091,260.30**	2,463,564.64	168,424.43	-1,133.87	22,296.36	1,278,653.87	159,454.87	
Reinsurers' share	R0340	**65,618,470.84**	8,957,270.97	2,269,421.35	11,020,874.13	168,655.39	120,486.45	43,081,762.56	
Net	**R0400**	**122,633,255.99**	**98,363,130.65**	**5,667,622.99**	**8,430,192.28**	**2,637,027.61**	**2,135,199.37**	**5,400,083.10**	
Changes in other technical provisions									
Gross - Direct Business	R0410	**0.00**							
Gross - Proportional reinsurance accepted	R0420	**0.00**							
Gross - Non-proportional reinsurance accepted	R0430	**0.00**							
Reinsurers' share	R0440	**0.00**							
Net	**R0500**	**0.00**							
Expenses incurred	**R0550**	**161,618,087.32**	118,592,869.22	4,497,090.30	8,665,761.68	6,563,152.30	4,045,465.57	19,253,748.25	
Other expenses	**R1200**								
Total expenses	**R1300**	**161,618,087.32**							

life obligations

		Total Top 5 and home country	Home Country	+
		C0210	C0150	
R1400			United Kingdom	
		C0280	C0220	
Premium written				
Gross	R1410	**0.00**		
Reinsurers' share	R1420	**0.00**		
Net	**R1500**	**0.00**		
Premium earned				
Gross	R1510	**0.00**		
Reinsurers' share	R1520	**0.00**		
Net	**R1600**	**0.00**		
Claims paid				
Gross	R1610	**0.00**		
Reinsurers' share	R1620	**0.00**		
Net	**R1700**	**0.00**		
Changes in other technical provisions				
Gross	R1710	**0.00**		
Reinsurers' share	R1720	**0.00**		
Net	**R1800**	**0.00**		
Expenses incurred	**R1900**	**0.00**		
Other expenses	**R2500**			
Total expenses	**R2600**			

Percentage of the total gross written premiums		
	Non-life	75.62%
	Life	0.00%

Country split is 90% of total gross written premiums or 5 Countries have been entered		
	Non-life	YES
	Life	YES

S.17.01 Non - life Technical Provisions

Entity: **HCCI - HCC International Insurance Co PLc**
Scenario: **2016 Solvency II - Actual**
Period: **Year**
Category: **Default Original Amount**
Currency: **USD - US Dollars**

		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	Non-proportional health reinsurance	Non-proportional casualty reinsurance	Non-proportional marine, aviation and transport reinsurance	Non-proportional property reinsurance	
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0170	C0180
Technical provisions calculated as a whole	**R0010**																	0.00
Direct business	R0020																	0.00
Accepted proportional reinsurance business	R0030																	0.00
Accepted non-proportional reinsurance	R0040																	0.00
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole	R0050																	0.00
Technical Provisions calculated as a sum of BE and RM																		
Best estimate																		
Premium provisions																		
Gross - Total	R0060	287,790.65	-255,128.62	1,935,162.36			-1,247,052.13	489,780.41	38,553,953.42	36,601,414.78		128,290.79	567,455.69	-1,060,527.67	2,457,664.28	690,064.30	-1,618,650.42	77,530,217.84
Gross - direct business	R0070	287,790.65	-215,578.43	1,935,162.36			-1,247,052.13	568,035.40	38,553,953.42	36,601,414.78		67,627.26	567,455.69					77,118,809.00
Gross - accepted proportional reinsurance business	R0080		-39,550.19					-78,254.99				60,663.53						-57,141.65
Gross - accepted non-proportional reinsurance business	R0090													-1,060,527.67	2,457,664.28	690,064.30	-1,618,650.42	468,550.49
Total recoverable from reinsurance/SPV and Finite Re before the adjustment for expected losses due to counterparty default	R0100	-232,217.40	-957,933.18	-229,405.60			-7,170,943.10	-2,866,604.17	2,672,000.22	-10,540,111.17		-11,835.04	836,634.38	-598,301.20	-885,038.89	-3,372,902.30	1,544,664.42	-21,811,993.03
Recoverables from reinsurance (except SPV and Finite Reinsurance) before adjustment for expected losses	R0110	-232,217.40	-957,933.18	-229,405.60			-7,170,943.10	-2,866,604.17	2,672,000.22	-10,540,111.17		-11,835.04	836,634.38	-598,301.20	-885,038.89	-3,372,902.30	1,544,664.42	-21,811,993.03
Recoverables from SPV before adjustment for expected losses	R0120																	0.00
Recoverables from Finite Reinsurance before adjustment for expected losses	R0130																	0.00
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0140	-232,217.40	-961,012.86	-230,554.07			-7,177,708.59	-2,874,233.96	2,501,916.68	-10,544,838.20		-11,835.08	831,497.87	-599,488.40	-899,397.53	-3,378,117.19	1,512,847.70	-22,063,141.03
Net Best Estimate of Premium Provisions	**R0150**	520,008.05	705,884.24	2,165,716.43			5,930,656.46	3,364,014.37	36,052,036.74	47,146,252.98		140,125.87	-264,042.18	-461,039.27	3,357,061.81	4,068,181.49	-3,131,498.12	99,593,358.87
Claims provisions																		
Gross - Total	R0160	8,689,146.92	6,481,264.84	24,716,461.02			44,843,953.77	4,149,723.17	328,937,666.05	104,870,202.46		56,585.78	3,500,238.51	8,612,070.78	53,091,839.43	55,618,462.70	23,412,909.04	666,980,524.47
Gross - direct business	R0170	8,689,146.92	6,415,744.94	24,716,461.02			44,843,953.77	1,248,001.63	328,937,666.05	104,870,202.46		1,937.40	3,500,238.51					523,223,352.70
Gross - accepted proportional reinsurance business	**R0180**		65,519.90					2,901,721.54				54,648.38						3,021,889.82
Gross - accepted non-proportional reinsurance business	R0190													8,612,070.78	53,091,839.43	55,618,462.70	23,412,909.04	140,735,281.95
Total recoverable from reinsurance/SPV and Finite Re before the adjustment for expected losses due to counterparty default	R0200	317,289.58	7,575,978.98	10,058,431.11			19,559,801.57	483,490.58	104,806,210.68	54,561,885.80		-214.02	3,428,464.39	3,972,309.50	20,127,906.46	45,357,942.42	5,308,647.75	275,558,144.80
Recoverables from reinsurance (except SPV and Finite Reinsurance) before adjustment for expected losses	R0210	317,289.58	7,575,978.98	10,058,431.11			19,559,801.57	483,490.58	104,806,210.68	54,561,885.80		-214.02	3,428,464.39	3,972,309.50	20,127,906.46	45,357,942.42	5,308,647.75	275,558,144.80
Recoverables from SPV before adjustment for expected losses	**R0220**																	0.00
Recoverables from Finite Reinsurance before adjustment for expected losses	R0230																	0.00
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0240	317,043.49	7,558,835.18	9,995,073.15			19,437,040.82	481,593.27	104,102,787.52	54,506,797.99		-213.28	3,421,956.76	3,962,391.36	20,002,805.99	45,148,779.66	5,294,577.89	274,229,469.80
Net Best Estimate of Claims Provisions	R0250	8,372,103.43	-1,077,570.34	14,721,387.87			25,406,912.95	3,668,129.90	224,834,878.53	50,363,404.47		56,799.06	78,281.75	4,649,679.42	33,089,033.44	10,469,683.04	18,118,331.15	392,751,054.67
Total Best estimate - gross	R0260	8,976,937.57	6,226,136.22	26,651,623.38			43,596,901.64	4,639,503.58	367,491,619.47	141,471,617.24		184,876.57	4,067,694.20	7,551,543.11	55,549,503.71	56,308,527.00	21,794,258.62	744,510,742.31
Total Best estimate - net	**R0270**	8,892,111.48	-371,686.10	16,887,104.30			31,337,569.41	7,032,144.27	260,886,915.27	97,509,657.45		196,924.93	-185,760.43	4,188,640.15	36,446,095.25	14,537,864.53	14,986,833.03	492,344,413.54
Risk margin	**R0280**	268,627.30	-218,301.05	1,544,952.64			2,308,697.16	512,140.35	27,910,923.67	4,100,423.34		13,355.30	-2,655.55	167,499.67	4,094,049.28	1,111,048.49	1,014,705.36	42,825,465.96
Amount of the transitional on Technical Provisions																		
TP as a whole	R0290																	0.00
Best estimate	R0300																	0.00
Risk margin	R0310																	0.00
Technical Provisions																		
Technical provisions - total	R0320	9,245,564.87	6,007,835.17	28,196,576.02			45,905,598.80	5,151,643.93	395,402,543.14	145,572,040.58		198,231.87	4,065,038.65	7,719,042.78	59,643,552.99	57,419,575.49	22,808,963.98	787,336,208.27
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total	R0330	84,826.09	6,597,822.32	9,764,519.08			12,259,332.23	-2,392,640.69	106,604,704.20	43,961,959.79		-12,048.36	4,253,454.63	3,362,902.96	19,103,408.46	41,770,662.47	6,807,425.59	252,166,328.77
Technical provisions minus recoverables from reinsurance/SPV and Finite Re- total	R0340	9,160,738.78	-589,987.15	18,432,056.94			33,646,266.57	7,544,284.62	288,797,838.94	101,610,080.79		210,280.23	-188,415.98	4,356,139.82	40,540,144.53	15,648,913.02	16,001,538.39	535,169,879.50

S.19.01 Non-life Insurance Claims Information

Entity:	**HCCI - HCC International Insurance Co PLc**
Scenario:	**2016 Solvency II - Actual**
Period:	**Year**
Currency:	**USD - US Dollars**
Category:	**Default Original Amount**
Line of Business:	
Accident year/Underwriting	**2 - Underwriting year**

Gross Claims Paid (non-cumulative)

	Development year (absolute amount)															
	0	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15 & +
	C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160
Prior																15,966,827.10
2002	790,577.01	2,251,966.59	2,164,523.70	208,340.49	-3,584.08	-87,075.44	18,330.16	0.00	0.00	0.00	0.00	0.00	0.00	1,234,122.40	1,872,874.48	
2003	924,570.33	2,777,167.51	1,208,713.16	492,589.86	343,262.43	174,704.51	0.00	0.00	0.00	0.00	0.00	0.00	1,163,062.10	2,002,027.34		
2004	1,255,931.61	3,138,602.50	1,047,579.05	680,589.44	177,372.19	-194,237.85	997,415.30	-529,176.64	587,072.96	769,308.85	225,092.21	6,620,934.48	11,769,226.00			
2005	1,671,034.25	4,157,849.47	1,949,495.31	849,568.70	1,176,808.39	-2,535,516.77	-238,099.74	72,427.26	144,132.48	412,731.03	1,424,667.91	2,871,367.00				
2006	2,534,622.00	9,935,827.12	6,869,013.10	4,522,598.17	3,380,534.64	228,290.28	166,379.72	1,223,775.62	193,394.19	2,274,983.15	18,386,492.75					
2007	7,451,767.95	27,613,240.14	38,263,507.09	4,342,365.22	21,636,889.85	7,863,592.21	2,007,788.26	5,150,890.58	3,335,271.86	16,275,473.76						
2008	4,118,483.32	32,563,692.75	26,886,192.39	17,087,925.94	1,838,609.61	3,282,191.71	1,388,291.85	8,654,552.82	17,687,555.81							
2009	3,889,836.92	20,167,095.84	7,203,348.60	9,498,706.49	5,621,168.93	2,290,572.85	2,766,743.09	2,651,321.11								
2010	17,560,676.31	65,446,622.21	39,299,577.15	25,825,714.77	4,669,534.35	5,554,819.72	11,395,235.97									
2011	7,341,334.46	41,147,072.42	20,102,958.79	23,926,559.67	3,627,020.80	7,872,799.55										
2012	6,226,110.30	21,013,152.98	21,521,475.72	32,851,061.03	7,857,173.38											
2013	9,880,097.29	28,645,171.97	18,643,159.76	12,133,732.52												
2014	9,115,536.97	26,613,339.64	37,223,945.52													
2015	9,091,709.99	37,034,747.59														
2016	21,300,442.37															

	In Current year	Sum of years (cumulative)
	C0170	C0180
R0100	15,966,827.10	15,966,827.10
R0110	1,872,874.48	8,450,075.31
R0120	2,002,027.34	9,086,097.24
R0130	11,769,226.00	26,545,710.10
R0140	2,871,367.00	11,956,465.29
R0150	18,386,492.75	49,715,910.74
R0160	16,275,473.76	133,940,786.92
R0170	17,687,555.81	113,507,496.20
R0180	2,651,321.11	54,088,793.83
R0190	11,395,235.97	169,752,180.48
R0200	7,872,799.55	104,017,745.69
R0210	7,857,173.38	89,468,973.41
R0220	12,133,732.52	69,302,161.54
R0230	37,223,945.52	72,952,822.13
R0240	37,034,747.59	46,126,457.58
R0250	21,300,442.37	21,300,442.37
R0260	**224,301,242.25**	**996,178,945.93**

Gross undiscounted Best Estimate Claims Provisions

	Development year (absolute amount)															
	0	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15 & +
	C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300	C0310	C0320	C0330	C0340	C0350
Prior																5,891,752.22
2002	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	5,107,720.42	
2003	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	2,389,750.20		
2004	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-7,678,466.08			
2005	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	11,123,296.69				
2006	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	18,163,018.69					
2007	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	26,771,199.58						
2008	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	43,575,909.34							
2009	0.00	0.00	0.00	0.00	0.00	0.00	0.00	21,811,417.39								
2010	0.00	0.00	0.00	0.00	0.00	0.00	27,383,810.53									
2011	0.00	0.00	0.00	0.00	0.00	37,002,252.09										
2012	0.00	0.00	0.00	0.00	63,574,540.59											
2013	0.00	0.00	0.00	98,635,893.56												
2014	0.00	0.00	99,687,813.37													
2015	0.00	139,605,648.14														
2016	88,034,698.73															

	Year end (discounted data)
	C0360
R0100	5,907,842.81
R0110	5,115,997.02
R0120	2,393,488.86
R0130	-7,690,307.31
R0140	11,143,883.03
R0150	18,106,966.70
R0160	26,530,538.07
R0170	43,081,614.19
R0180	21,654,199.22
R0190	27,135,872.64
R0200	36,120,470.90
R0210	61,406,341.71
R0220	96,912,112.85
R0230	97,417,023.30
R0240	136,051,618.61
R0250	85,692,861.87

S.23.01 Own funds (solo)

Entity: **HCCI - HCC International Insurance Co PLc**
Scenario: **2016 Solvency II - Actual**
Period: **Year**
Category: **Default Original Amount**
Currency: **USD - US Dollars**

		Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation (EU) 2015/35						
Ordinary share capital (gross of own shares)	R0010	**233,241,504.00**	233,241,504.00			
Share premium account related to ordinary share capital	R0030					
Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings	R0040					
Subordinated mutual member accounts	R0050					
Surplus funds	R0070					
Preference shares	R0090					
Share premium account related to preference shares	R0110					
Reconciliation reserve	R0130	**388,704,643.22**	388,704,643.22			
Subordinated liabilities	R0140					
An amount equal to the value of net deferred tax assets	R0160					
Other own fund items approved by the supervisory authority as basic own funds not specified above	R0180					
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds						
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	R0220					
Deductions						
Deductions for participations in financial and credit institutions	R0230					
Total basic own funds after deductions	**R0290**	**621,946,147.22**	**621,946,147.22**			

		Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
Ancillary own funds						
Unpaid and uncalled ordinary share capital callable on demand	R0300					
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	R0310					
Unpaid and uncalled preference shares callable on demand	R0320					
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	R0330					
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	R0340					
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	R0350					
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0360					
Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0370					
Other ancillary own funds	R0390					
Total ancillary own funds	**R0400**					
Available and eligible own funds						
Total available own funds to meet the SCR	**R0500**	**621,946,147.22**	**621,946,147.22**			
Total available own funds to meet the MCR	**R0510**	**621,946,147.22**	**621,946,147.22**			
Total eligible own funds to meet the SCR	**R0540**	**621,946,147.22**	**621,946,147.22**			
Total eligible own funds to meet the MCR	**R0550**	**621,946,147.22**	**621,946,147.22**			
SCR	**R0580**	**321,886,299.17**				
MCR	**R0600**	**116,253,938.67**				
Ratio of Eligible own funds to SCR	**R0620**	**193.22%**				
Ratio of Eligible own funds to MCR	**R0640**	**534.99%**				

		C0060
Reconciliation reserve		
Excess of assets over liabilities	R0700	**621,946,147.22**
Own shares (held directly and indirectly)	R0710	
Foreseeable dividends, distributions and charges	R0720	
Other basic own fund items	R0730	**233,241,504.00**
Other basic own fund items - Others		
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	R0740	
Reconciliation reserve	**R0760**	**388,704,643.22**
Expected profits		
Expected profits included in future premiums (EPIFP) - Life Business	R0770	
Expected profits included in future premiums (EPIFP) - Non- life business	R0780	6,762,727.63
Total Expected profits included in future premiums (EPIFP)	**R0790**	**6,762,727.63**

S.25.01 Solvency Capital Requirement - for undertakings on Standard Formula

Entity: **HCCI - HCC International Insurance Co PLc**
Scenario: **2016 Solvency II - Actual**
Period: **Year**
Category: **Solvency II: Solo Purpose**
Currency: **USD - US Dollars**

Loss absorbing capacity of deferred taxes calculation (Standard Formulas module) - Solo level

Corporate Income Tax rate (CIT)	7.82%
(BSCR + LAC of TP + OpRisk) x (CIT rate)	27,320,736.22
LAC of deferred taxes - Impairment adjustment	
Group adjustment for deferred Taxes	
Loss-absorbing capacity of deferred taxes	**-27,320,736.22**

		Net solvency capital requirement	Gross solvency capital requirement	Allocation from adjustments due to RFF and Matching adjustments portfolios	USP	Simplificaciones
		C0030	C0040	C0050	C0080	C0090
Market risk	R0010	94,515,374.48	94,515,374.48			
Counterparty default risk	R0020	34,290,528.48	34,290,528.48			
Life underwriting risk	R0030					
Health underwriting risk	R0040	19,592,009.27	19,592,009.27			
Non-life underwriting risk	R0050	267,661,504.93	267,661,504.93			
Diversification	R0060	-89,187,704.03	-89,187,704.03			
Intangible asset risk	R0070					
Basic Solvency Capital Requirement	**R0100**	**326,871,713.13**	**326,871,713.13**			

Calculation of Solvency Capital Requirement

		C0100
Adjustment due to RFF/MAP nSCR aggregation	R0120	
Total capital requirement for operational risk	R0130	22,335,322.27
Loss-absorbing capacity of technical provisions	R0140	
Loss-absorbing capacity of deferred taxes	R0150	-27,320,736.22
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	R0160	
Solvency capital requirement excluding capital add-on	**R0200**	**321,886,299.17**
Capital add-on already set	R0210	
Solvency capital requirement	**R0220**	**321,886,299.17**
Solvency capital requirement		**321,886,299.17**
Other information on SCR		
Capital requirement for duration-based equity risk sub-module	R0400	
Total amount of Notional Solvency Capital Requirements for remaining part	R0410	
Total amount of Notional Solvency Capital Requirements for ring fenced funds	R0420	
Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	R0430	
Diversification effects due to RFF nSCR aggregation for article 304	R0440	

S.28.01 Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

Entity: **HCCI - HCC International Insurance Co PLc**
Scenario: **2016 Solvency II - Actual**
Period: **Year**
Category: **Solvency II: Solo Purpose**
Currency: **USD - US Dollars**

Linear formula component for non-life insurance and reinsurance obligations

MCR calculation Non Life		Non-life activities: Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Non-life activities: Net (of reinsurance) written premiums in the last 12 months	Linear formula component for non-life insurance and reinsurance obligations - MCR calculation
		C0020	C0030	
Medical expense insurance and proportional reinsurance	R0020	8,892,111.48	51,727,710.48	**2,849,131.63**
Income protection insurance and proportional reinsurance	R0030		6,164,903.19	**524,016.77**
Workers' compensation insurance and proportional reinsurance	R0040	16,887,104.30	8,949,281.50	**2,478,116.27**
Motor vehicle liability insurance and proportional reinsurance	R0050			
Other motor insurance and proportional reinsurance	R0060			
Marine, aviation and transport insurance and proportional reinsurance	R0070	31,337,569.41	16,112,860.19	**5,483,570.08**
Fire and other damage to property insurance and proportional reinsurance	R0080	7,032,144.27	7,320,308.85	**1,210,044.73**
General liability insurance and proportional reinsurance	R0090	260,886,915.27	151,226,727.27	**46,682,053.55**
Credit and suretyship insurance and proportional reinsurance	R0100	97,509,657.45	129,711,597.72	**31,916,619.91**
Legal expenses insurance and proportional reinsurance	R0110			
Assistance and proportional reinsurance	R0120	196,924.93	550,875.60	**83,452.46**
Miscellaneous financial loss insurance and proportional reinsurance	R0130		1,675,351.28	**204,392.86**
Non-proportional health reinsurance	R0140	4,188,640.15	7,367,840.59	**1,950,573.72**
Non-proportional casualty reinsurance	R0150	36,446,095.25	8,881,498.36	**8,191,131.96**
Non-proportional marine, aviation and transport reinsurance	R0160	14,537,864.53	10,361,792.44	**4,351,567.80**
Non-proportional property reinsurance	R0170	14,986,833.03	47,432,176.10	**10,329,266.94**

Linear formula component for life insurance and reinsurance obligations

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

MCR components

		Non-life activities	Life activities	Total
		C0010	C0040	
MCR$_{NL}$ Result	R0010	116,253,938.67		116,253,938.67
MCR$_{L}$ Result	R0200			

Overall MCR calculation

			C0070
Linear MCR	R0300		**116,253,938.67**
SCR	R0310		321,886,299.17
MCR cap	R0320	45.00%	**144,848,834.63**
MCR floor	R0330	25.00%	**80,471,574.79**
Combined MCR	R0340		**116,253,938.67**
Absolute floor of the MCR	R0350		4,050,000.00

		C0070
Minimum Capital Requirement	**R0400**	**116,253,938.67**

S.02.01.01
Balance sheet

	Solvency II value	Statutory accounts value
Assets	C0010	C0020
Goodwill		7,725,285.09
Deferred acquisition costs		73,148,259.30
Intangible assets	0.00	
Deferred tax assets	0.00	
Pension benefit surplus	0.00	
Property, plant & equipment held for own use	2,836,107.96	2,836,107.96
Investments (other than assets held for index-linked and unit-linked contracts)	1,118,340,477.34	1,110,437,486.38
Property (other than for own use)	239,000.00	239,000.00
Holdings in related undertakings, including participations	0.00	
Equities	77,162,879.97	77,004,964.60
Equities - listed	77,162,879.97	77,004,964.60
Equities - unlisted	0.00	
Bonds	1,012,146,526.06	1,004,401,450.65
Government Bonds	65,445,436.45	64,844,573.58
Corporate Bonds	635,349,780.00	629,052,360.72
Structured notes	0.00	
Collateralised securities	311,351,309.60	310,504,516.34
Collective Investments Undertakings	28,792,071.31	28,792,071.13
Derivatives	0.00	
Deposits other than cash equivalents	0.00	
Other investments	0.00	
Assets held for index-linked and unit-linked contracts	0.00	
Loans and mortgages	0.00	0.00
Loans on policies	0.00	
Loans and mortgages to individuals	0.00	
Other loans and mortgages	0.00	
Reinsurance recoverables from:	252,166,328.77	333,059,959.59
Non-life and health similar to non-life	252,166,328.77	333,059,959.59
Non-life excluding health	232,356,258.32	333,059,959.59
Health similar to non-life	19,810,070.45	
Life and health similar to life, excluding index-linked and unit-linked	0.00	0.00
Health similar to life	0.00	
Life excluding health and index-linked and unit-linked	0.00	
Life index-linked and unit-linked	0.00	
Deposits to cedants	0.00	
Insurance and intermediaries receivables	12,389,124.18	101,031,580.71
Reinsurance receivables	23,075,282.50	23,075,282.50
Receivables (trade, not insurance)	54,056,630.17	54,056,630.17
Own shares (held directly)	0.00	
Amounts due in respect of own fund items or initial fund called up but not yet paid in	0.00	
Cash and cash equivalents	121,385,212.34	121,385,212.34
Any other assets, not elsewhere shown	32,695.20	7,935,686.10
Total assets	1,584,281,858.46	1,834,691,490.14

	Solvency II value	Statutory accounts value
Liabilities	C0010	C0020
Technical provisions - non-life	787,336,208.27	993,666,158.22
Technical provisions - non-life (excluding health)	736,167,189.42	993,666,158.22
TP calculated as a whole	0.00	
Best Estimate	695,104,502.03	
Risk margin	41,062,687.39	
Technical provisions - health (similar to non-life)	51,169,018.85	
TP calculated as a whole	0.00	
Best Estimate	49,406,240.28	
Risk margin	1,762,778.57	
Technical provisions - life (excluding index-linked and unit-linked)	0.00	0.00
Technical provisions - health (similar to life)	0.00	
TP calculated as a whole	0.00	
Best Estimate	0.00	
Risk margin	0.00	
Technical provisions - life (excluding health and index-linked and unit-linked)	0.00	
TP calculated as a whole	0.00	
Best Estimate	0.00	
Risk margin	0.00	
Technical provisions - index-linked and unit-linked	0.00	
TP calculated as a whole	0.00	
Best Estimate	0.00	
Risk margin	0.00	
Other technical provisions		
Contingent liabilities	0.00	
Provisions other than technical provisions	0.00	
Pension benefit obligations	0.00	
Deposits from reinsurers	0.00	
Deferred tax liabilities	16,978,597.08	16,345,019.17
Derivatives	0.00	
Debts owed to credit institutions	0.00	
Financial liabilities other than debts owed to credit institutions	0.00	
Insurance & intermediaries payables	15,814,364.65	15,814,364.65
Reinsurance payables	22,989,248.68	51,446,759.77
Payables (trade, not insurance)	0.00	
Subordinated liabilities	0.00	0.00
Subordinated liabilities not in BOF	0.00	
Subordinated liabilities in BOF	0.00	
Any other liabilities, not elsewhere shown	114,673,739.06	125,905,245.23
Total liabilities	957,792,157.74	1,203,177,547.04
Excess of assets over liabilities	626,489,700.73	631,513,943.10

S.05.01.01

Premiums, claims and expenses by line of business

Non-life

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)												Line of business for: accepted non-proportional reinsurance				Total
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	Health	Casualty	Marine, aviation, transport	Property	
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0200
	Premiums written																	
R0110	*Gross - Direct Business*	58,835,229.87	12,913,873.67	9,718,777.52			22,635,550.65	3,614,093.88	187,672,912.90	149,043,985.62		145,019.29	10,561,572.54					455,141,015.94
R0120	*Gross - Proportional reinsurance accepted*		66,041.67					6,123,522.39				376,028.26	26,110.91					6,591,703.23
R0130	*Gross - Non-proportional reinsurance accepted*													9,347,447.63	13,949,500.79	12,418,807.52	51,181,436.24	86,897,192.18
R0140	*Reinsurers' share*	678,227.18	7,644,527.28	522,328.83			9,662,736.52	1,351,612.36	30,253,571.78	22,540,487.95		-666.57	8,196,676.80	2,334,789.23	4,164,631.17	7,546,134.75	10,655,619.00	105,550,676.28
R0200	*Net*	58,157,002.69	5,335,388.06	9,196,448.69	0.00	0.00	12,972,814.13	8,386,003.91	157,419,341.12	126,503,497.67	0.00	521,714.12	2,391,006.65	7,012,658.40	9,784,869.62	4,872,672.77	40,525,817.24	443,079,235.07
	Premiums earned																	
R0210	*Gross - Direct Business*	54,715,749.21	12,387,001.40	9,851,640.14			22,738,061.87	3,084,556.78	187,609,784.72	147,846,480.97		160,654.52	9,265,267.31					447,659,196.92
R0220	*Gross - Proportional reinsurance accepted*		66,041.67					5,470,520.02				377,499.07	26,110.91					5,940,171.67
R0230	*Gross - Non-proportional reinsurance accepted*													9,710,864.51	15,549,690.37	21,017,833.71	50,855,540.34	97,133,928.93
R0240	*Reinsurers' share*	546,727.34	7,813,816.50	703,163.10			9,987,829.72	1,362,349.25	39,687,218.82	20,231,944.29		5,494.68	7,701,828.08	2,696,882.75	5,563,841.48	10,896,542.29	11,761,891.35	118,959,529.65
R0300	*Net*	54,169,021.87	4,639,226.57	9,148,477.04	0.00	0.00	12,750,232.15	7,192,727.55	147,922,565.90	127,614,536.68	0.00	532,658.91	1,589,550.14	7,013,981.76	9,985,848.89	10,121,291.42	39,093,648.99	431,773,767.87
	Claims incurred																	
R0310	*Gross - Direct Business*	31,285,181.10	2,092,239.87	17,645,242.95			33,531,947.21	1,358,491.84	72,285,689.26	89,460,949.82		-35,870.36	1,768,691.96					249,392,563.65
R0320	*Gross - Proportional reinsurance accepted*	5,507.97	163,032.61	408,087.51			144,013.01	3,498,825.73	2,924,832.22	1,189,092.69		123,689.48	52,050.56					8,509,131.78
R0330	*Gross - Non-proportional reinsurance accepted*													7,705,379.05	7,199.29	24,813,977.43	4,554,467.39	37,081,023.16
R0340	*Reinsurers' share*	353,052.33	1,160,239.40	11,697,418.52			29,954,375.22	-182,823.23	8,651,322.84	43,222,349.08		-301.39	2,434,436.96	1,584,149.67	726,830.45	20,023,504.73	639,617.38	120,264,171.96
R0400	*Net*	30,937,636.74	1,095,033.08	6,355,911.94	0.00	0.00	3,721,585.00	5,040,140.80	66,559,198.64	47,427,693.43	0.00	88,120.51	-613,694.44	6,121,229.38	-719,631.16	4,790,472.70	3,914,850.01	174,718,546.63
	Changes in other technical provisions																	
R0410	*Gross - Direct Business*																	0.00
R0420	*Gross - Proportional reinsurance accepted*																	0.00
R0430	*Gross - Non-proportional reinsurance accepted*																	0.00
R0440	*Reinsurers' share*																	0.00
R0500	*Net*	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
R0550	**Expenses incurred**	29,410,060.70	2,800,201.12	3,575,161.54	0.00	0.00	7,213,152.30	3,191,294.58	72,840,970.45	65,632,043.87	0.00	300,805.83	400,392.77	2,492,821.05	5,651,817.54	6,350,029.31	13,872,225.49	213,730,976.55
	Administrative expenses																	
R0610	*Gross - Direct Business*	1,922,173.67	1,246,429.87	1,025,592.87			3,481,380.38	251,017.56	25,447,549.65	39,246,661.93		17,903.79	633,987.77					73,272,697.49
R0620	*Gross - Proportional reinsurance accepted*		21,218.57					487,868.56				46,365.19						555,452.32
R0630	*Gross - Non-proportional reinsurance accepted*													1,269,537.68	1,843,961.73	3,745,422.34	8,295,436.92	15,154,358.67
R0640	*Reinsurers' share*	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
R0700	*Net*	1,922,173.67	1,267,648.44	1,025,592.87	0.00	0.00	3,481,380.38	738,886.12	25,447,549.65	39,246,661.93	0.00	64,268.98	633,987.77	1,269,537.68	1,843,961.73	3,745,422.34	8,295,436.92	88,982,508.48
	Investment management expenses																	
R0710	*Gross - Direct Business*	21,095.63	51,816.51	15,309.31			110,550.18		564,879.54	485,944.30			22,988.45					1,272,583.92
R0720	*Gross - Proportional reinsurance accepted*											511.25						511.25
R0730	*Gross - Non-proportional reinsurance accepted*													45,333.22	62,159.05	143,863.51	167,644.61	419,000.39
R0740	*Reinsurers' share*	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
R0800	*Net*	21,095.63	51,816.51	15,309.31	0.00	0.00	110,550.18	0.00	564,879.54	485,944.30	0.00	511.25	22,988.45	45,333.22	62,159.05	143,863.51	167,644.61	1,692,095.56
	Claims management expenses																	
R0810	*Gross - Direct Business*	5,390.49	97,919.29	408,087.50			144,013.01	102,350.07	2,921,870.90	1,193,522.58		993.52	52,002.90					4,926,150.26
R0820	*Gross - Proportional reinsurance accepted*		1,177.46					1,580.05										2,757.51
R0830	*Gross - Non-proportional reinsurance accepted*													66,650.15	195,814.48	99,808.64	89,002.56	451,275.83
R0840	*Reinsurers' share*	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
R0900	*Net*	5,390.49	99,096.75	408,087.50	0.00	0.00	144,013.01	103,930.12	2,921,870.90	1,193,522.58	0.00	993.52	52,002.90	66,650.15	195,814.48	99,808.64	89,002.56	5,380,183.60
	Acquisition expenses																	
R0910	*Gross - Direct Business*	27,471,493.10	3,924,844.60	2,126,630.06			3,945,516.06	866,012.61	53,482,774.84	24,186,305.63		49,008.24	2,651,692.12					118,704,277.26
R0920	*Gross - Proportional reinsurance accepted*		21,045.90					1,485,524.61				185,974.49						1,692,545.00
R0930	*Gross - Non-proportional reinsurance accepted*													2,002,207.42	4,925,920.09	3,062,656.26	5,645,466.40	15,636,250.17
R0940	*Reinsurers' share*	10,092.19	2,564,251.08	458.20			468,307.33	3,058.88	9,576,104.48	-519,609.43		-49.35	2,960,278.47	890,907.42	1,376,037.81	701,721.44	325,325.00	18,356,883.52
R1000	*Net*	27,461,400.91	1,381,639.42	2,126,171.86	0.00	0.00	3,477,208.73	2,348,478.34	43,906,670.36	24,705,915.06	0.00	235,032.08	-308,586.35	1,111,300.00	3,549,882.28	2,360,934.82	5,320,141.40	117,676,188.91
	Overhead expenses																	
R1010	*Gross - Direct Business*	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00					0.00
R1020	*Gross - Proportional reinsurance accepted*	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00					0.00
R1030	*Gross - Non-proportional reinsurance accepted*													0.00	0.00	0.00	0.00	0.00
R1040	*Reinsurers' share*	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
R1100	*Net*	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
R1200	**Other expenses**																	2,528,923.05
R1300	**Total expenses**																	216,259,899.60

S.05.02.01

Premiums, claims and expenses by country

		Home Country	Top 5 countries (by amount of gross premiums written) - non-life obligations					Total Top 5 and home country
		C0010	C0020	C0030	C0040	C0050	C0060	C0070
R0010	**Non-life**		FR	DE	IE	ES	IT	
		C0080	C0090	C0100	C0110	C0120	C0130	C0140
	Premiums written							
R0110	*Gross - Direct Business*	279,204,028.98	9,921,055.02	18,016,495.62	14,292,650.32	46,909,690.41	7,538,751.62	375,882,671.97
R0120	*Gross - Proportional reinsurance accepted*	4,249,632.06	27,996.20	0.00	138,749.86	1,340,153.75	0.00	5,756,531.87
R0130	*Gross - Non-proportional reinsurance accepted*	20,964,521.03	1,594,611.26	4,227,804.86	2,415,674.22	1,172,950.63	2,845,627.17	33,221,189.17
R0140	*Reinsurers' share*	27,809,983.17	4,394,298.47	5,832,653.29	2,971,264.74	24,998,785.16	1,545,766.92	67,552,751.75
R0200	*Net*	276,608,198.90	7,149,364.01	16,411,647.19	13,875,809.66	24,424,009.63	8,838,611.87	347,307,641.26
	Premiums earned							
R0210	*Gross - Direct Business*	279,018,292.88	8,721,753.83	17,749,912.94	14,239,698.59	45,863,058.71	6,781,217.66	372,373,934.61
R0220	*Gross - Proportional reinsurance accepted*	3,804,048.28	25,042.58	0.00	124,111.67	1,198,766.81	0.00	5,151,969.34
R0230	*Gross - Non-proportional reinsurance accepted*	18,744,666.44	1,661,409.10	4,246,160.50	2,504,099.51	1,319,303.91	2,812,662.11	31,288,301.57
R0240	*Reinsurers' share*	32,559,045.23	4,697,442.14	6,800,608.44	3,145,767.82	23,882,612.44	2,105,354.10	73,190,830.17
R0300	*Net*	269,007,962.37	5,710,763.37	15,195,465.00	13,722,141.95	24,498,516.99	7,488,525.67	335,623,375.35
	Claims incurred							
R0310	*Gross - Direct Business*	100,552,773.20	7,649,171.39	19,346,488.54	2,479,404.70	46,703,312.16	842,690.50	177,573,840.49
R0320	*Gross - Proportional reinsurance accepted*	4,304,063.78	119,448.52	105,711.73	303,981.93	1,619,078.63	134,341.44	6,586,626.03
R0330	*Gross - Non-proportional reinsurance accepted*	2,463,564.64	168,424.43	-1,133.87	22,296.36	159,454.87	1,278,653.87	4,091,260.30
R0340	*Reinsurers' share*	8,957,270.97	2,269,421.35	11,020,874.13	168,655.39	43,081,762.56	120,486.45	65,618,470.85
R0400	*Net*	98,363,130.65	5,667,622.99	8,430,192.27	2,637,027.60	5,400,083.10	2,135,199.36	122,633,255.97
	Changes in other technical provisions							
R0410	*Gross - Direct Business*							0.00
R0420	*Gross - Proportional reinsurance accepted*							0.00
R0430	*Gross - Non-proportional reinsurance accepted*							0.00
R0440	*Reinsurers' share*							0.00
R0500	*Net*	0.00	0.00	0.00	0.00	0.00	0.00	0.00
R0550	**Expenses incurred**	118,592,869.22	4,497,090.30	8,665,761.68	6,563,152.30	19,253,748.25	4,045,465.57	161,618,087.32
R1200	**Other expenses**							2,528,923.05
R1300	**Total expenses**							164,147,010.37

S.23.01.04
Own Funds

	Basic own funds before deduction for participations in other financial sector	**Total**	**Tier 1 unrestricted**	**Tier 1 restricted**	**Tier 2**	**Tier 3**
		C0010	C0020	C0030	C0040	C0050
R0010	Ordinary share capital (gross of own shares)	249,237,373.00	249,237,373.00		0.00	
R0020	*Non-available called but not paid in ordinary share capital at group level*	0.00				
R0030	Share premium account related to ordinary share capital	0.00	0.00		0.00	
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	0.00	0.00		0.00	
R0050	Subordinated mutual member accounts	0.00		0.00	0.00	0.00
R0060	*Non-available subordinated mutual member accounts at group level*	0.00				
R0070	Surplus funds	0.00	0.00			
R0080	*Non-available surplus funds at group level*	0.00	0.00			
R0090	Preference shares	0.00		0.00	0.00	0.00
R0100	*Non-available preference shares at group level*	0.00				
R0110	Share premium account related to preference shares	0.00		0.00	0.00	0.00
R0120	*Non-available share premium account related to preference shares at group level*	0.00				
R0130	Reconciliation reserve	377,252,327.73	377,252,327.73			
R0140	Subordinated liabilities	0.00		0.00	0.00	0.00
R0150	*Non-available subordinated liabilities at group level*	0.00				
R0160	An amount equal to the value of net deferred tax assets	0.00				0.00
R0170	*The amount equal to the value of net deferred tax assets not available at the group level*	0.00				0.00
R0180	Other items approved by supervisory authority as basic own funds not specified above	0.00	0.00	0.00	0.00	0.00
R0190	*Non available own funds related to other own funds items approved by supervisory authority*	0.00				
R0200	Minority interests (if not reported as part of a specific own fund item)	0.00				
R0210	*Non-available minority interests at group level*	0.00				

Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds

R0220	Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds		< Note: this deduction now included in R0290/C0020

	Deductions					
R0230	Deductions for participations in other financial undertakings, including non-regulated undertakings carrying out financial activities	0.00				
R0240	*whereof deducted according to art 228 of the Directive 2009/138/EC*	0.00				
R0250	Deductions for participations where there is non-availability of information (Article 229)	0.00				
R0260	Deduction for participations included by using D&A when a combination of methods is used	0.00				
R0270	**Total of non-available own fund items**	0.00	0.00	0.00	0.00	0.00
R0280	**Total deductions**	0.00	0.00	0.00	0.00	0.00
R0290	**Total basic own funds after deductions**	626,489,700.73	626,489,700.73	0.00	0.00	0.00
	Ancillary own funds					
R0300	Unpaid and uncalled ordinary share capital callable on demand	0.00				
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	0.00				
R0320	Unpaid and uncalled preference shares callable on demand	0.00				
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand	0.00				
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	0.00				
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	0.00				
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0.00				
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0.00				
R0380	Non available ancillary own funds at group level	0.00				
R0390	Other ancillary own funds	0.00				
R0400	**Total ancillary own funds**	0.00			0.00	0.00
	Own funds of other financial sectors					
R0410	Credit Institutions, investment firms, financial insitutions, alternative investment fund manager, financial institutions	0.00				
R0420	Institutions for occupational retirement provision	0.00				
R0430	Non regulated entities carrying out financial activities	0.00				
R0440	**Total own funds of other financial sectors**	0.00	0.00	0.00	0.00	0.00
	Own funds when using the D&A, exclusively or in combination of method 1					
R0450	Own funds aggregated when using the D&A and combination of method	0.00				
R0460	Own funds aggregated when using the D&A and combination of method net of IGT	0.00				
R0520	Total available own funds to meet the consolidated group SCR (excluding own funds from other financial sector and from the undertakings included via D&A)	626,489,700.73	626,489,700.73	0.00	0.00	0.00
R0530	Total available own funds to meet the minimum consolidated group SCR	626,489,700.73	626,489,700.73	0.00	0.00	
R0560	Total eligible own funds to meet the consolidated group SCR (excluding own funds from other financial sector and from the undertakings included via D&A)	626,489,700.73	626,489,700.73	0.00	0.00	0.00
R0570	Total eligible own funds to meet the minimum consolidated group SCR (group)	626,489,700.73	626,489,700.73	0.00	0.00	
R0590	**Consolidated Group SCR**	322,882,317.34				
R0610	**Minimum consolidated Group SCR**	116,253,938.67				
R0630	**Ratio of Eligible own funds to the consolidated Group SCR (excluding other financial sectors and the undertakings included via D&A)**	194.03%				
R0650	**Ratio of Eligible own funds to Minimum Consolidated Group SCR**	538.90%				
R0660	**Total eligible own funds to meet the group SCR (including own funds from other financial sector and from the undertakings included via D&A)**	626,489,700.73	626,489,700.73	0.00	0.00	0.00
R0670	**SCR for entities included with D&A method**	0.00				
R0680	**Group SCR**	322,882,317.34				
R0690	**Ratio of Eligible own funds to group SCR including other financial sectors and the undertakings included via D&A**	194.03%				

	Reconcilliation reserve	C0060
R0700	Excess of assets over liabilities	626,489,700.73
R0710	Own shares (held directly and indirectly)	
R0720	Forseeable dividends, distributions and charges	
R0730	Other basic own fund items	249,237,373.00
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	0.00
R0750	Other non available own funds	
R0760	**Reconciliation reserve**	377,252,327.73
	Expected profits	
R0770	Expected profits included in future premiums (EPIFP) - Life business	
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	6,762,727.63
R0790	**Total Expected profits included in future premiums (EPIFP)**	6,762,727.63

S.25.01.04
Solvency Capital Requirement - for groups on Standard Formula

		Article 112	Regular reporting
Z001			

		Net solvency capital requirement	Gross solvency capital requirement	Allocation from adjustments due to RFF and Matching adjustments portfolios	USP	Simplifications
		C0030	C0040	C0050	C0080	C0090
R001	Market risk	95,975,433.82	95,975,433.82	0.00		
R002	Counterparty default risk	34,643,660.00	34,643,660.60	0.00		
R003	Life underwriting risk			0.00		
R004	Health underwriting risk	19,592,009.27	19,592,009.27	0.00		
R005	Non-life underwriting risk	267,661,504.93	267,661,504.93	0.00		
R006	Diversification	-90,004,876.73	-90,004,876.97			
R007	Intangible asset risk		0.00			
R010	**Basic Solvency Capital Requirement**	327,867,731.29	327,867,731.65			

	Calculation of Solvency Capital Requirement	C0100
R012	Adjustment due to RFF/MAP nSCR aggregation	
R013	Operational risk	22,335,322.27
R0140	Loss-absorbing capacity of technical provisions	-0.36
R015	Loss-absorbing capacity of deferred taxes	-27,320,736.22
R016	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	
R020	**Solvency Capital Requirement excluding capital add-on**	322,882,317.34
R0210	Capital add-ons already set	
R0220	**Solvency capital requirement for undertakings under consolidated method**	322,882,317.34
	Other information on SCR	
R040	Capital requirement for duration-based equity risk sub-module	
R041	Total amount of Notional Solvency Capital Requirements for remaining part	
R0420	Total amount of Notional Solvency Capital Requirements for ring fenced funds	
R043	Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	
R0440	Diversification effects due to RFF nSCR aggregation for article 304	
R0450	Method used to calculate the adjustment due to RFF/MAP nSCR aggregation	No adjustment
R046	Net future discretionary benefits	
R047	Minimum consolidated group solvency capital requirement	116,253,938.67
	Information on other entities	
R050	Capital requirement for other financial sectors (Non-insurance capital requirements)	0.00
R0510	*Credit institutions, investment firms and financial institutions, alternative investment funds managers, UCITS management companies*	
R052	*Institutions for occupational retirement provisions*	
R053	*Capital requirement for non- regulated entities carrying out financial activities*	
R054	Capital requirement for non-controlled participation requirements	
R055	Capital requirement for residual undertakings	
	Overall SCR	
R0560	SCR for undertakings included via D&A	0.00
R0570	**Solvency capital requirement**	322,882,317.34

S.32.01.04
Undertakings in the scope of the group

								Ranking criteria (in the group currency)									Criteria of influence						Inclusion in the scope of		Group solvency
Country	Identification code of the undertaking	Type of code of the ID of the undertaking	Legal Name of the undertaking	Type of undertaking	Legal form	Category (mutual/non mutual)	Supervisory Authority	Total Balance Sheet (for (re)insurance undertakings)	Total Balance Sheet (for other regulated undertakings)	Total Balance Sheet (non-regulated undertakings)	Written premiums net of reinsurance ceded under IFRS or local GAAP for (re)insurance undertakings	Turn over defined as the gross revenue under IFRS or local GAAP for other types of undertakings or insurance holding companies	Underwriting performance	Investment performance	Total performance	Accounting standard	% capital share	% used for the establishment of consolidated accounts	% voting rights	Other criteria	Level of influence	Proportional share used for group solvency calculation	YES/NO	Date of decision if art. 214 is applied	Method used and under method 1, treatment of the undertaking
C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0170	C0180	C0190	C0200	C0210	C0220	C0230	C0240	C0250	C0260
GB	213800DGPY4ZCTVJVQ23	1	HCC International Insurance Co PLC	2	companies limited by shares or by guarantee or unlimited	2	Prudential Regulation Authority	1,584,267,547.67			443,079,235.07		174,989,894.89	30,557,140.42	138,098,247.33	2	100.00%	100.00%	100.00%		1		1		1
GB	213800DGPY4ZCTVJVQ23GB10205	2	HCC Insurance Holdings Ltd	5	companies limited by shares or by guarantee or unlimited	2				288,374,021.70					40,644.96	2	100.00%	100.00%	100.00%		1		1		1
GB	213800DGPY4ZCTVJVQ23GB10202	2	HCC Specialty Holdings (No.1) Limited	10	companies limited by shares or by guarantee or unlimited	2				1.00					0.00	2	100.00%	100.00%	100.00%		1		1		1
GB	213800DGPY4ZCTVJVQ23GB10204	2	Pepys Holdings Limited	10	companies limited by shares or by guarantee or unlimited	2				766,168.72					-7,468,607.75	2	100.00%	100.00%	100.00%		1		1		1
GB	213800DGPY4ZCTVJVQ23GB10203	2	HCCI Group Limited	10	companies limited by shares or by guarantee or unlimited	2				1.00					0.00	2	100.00%	100.00%	100.00%		1		1		1
GB	213800DGPY4ZCTVJVQ23GB30202	2	HCCI Credit Services Limited	10	companies limited by shares or by guarantee or unlimited	2				8,543,613.88		3,193,458.08			2,107,125.37	2	100.00%	100.00%	100.00%		1		1		1
GB	213800DGPY4ZCTVJVQ23GB30201	2	HCC Trustees Limited	10	companies limited by shares or by guarantee or unlimited	2				0.00					0.00	2	100.00%	100.00%	100.00%		1		1		1
GB	213800DGPY4ZCTVJVQ23JO30301	2	Rattner Mackenzie Limited	10	companies limited by shares or by guarantee or unlimited	2				4,048,471.65					1,507.42	2	100.00%	100.00%	100.00%		1		1		1
GB	213800DGPY4ZCTVJVQ23GB30207	2	Dickson Manchester & Company Limited	10	companies limited by shares or by guarantee or unlimited	2				0.00					0.00	2	100.00%	100.00%	100.00%		1		1		1
GB	213800DGPY4ZCTVJVQ23GB10101	2	HCC Diversificacion y Soluciones S.L.	10	companies limited by shares or by guarantee or unlimited	2				270,142.88		1,669,525.08			189,712.19	2	100.00%	100.00%	100.00%		1		1		1

Section G – ANNEX: Financial Statements for HCCII

This Annex contains the audited financial statements for HCC International Insurance Company Plc ('the Company') in respect of the year ended 31 December 2016

HCC INTERNATIONAL INSURANCE COMPANY PLC

ANNUAL REPORT AND FINANCIAL STATEMENTS

Year ended 31 December 2016

1 Aldgate
London EC3N 1RE
Registered number: 1575839

HCC INTERNATIONAL INSURANCE COMPANY PLC

CONTENTS

	PAGE
Company information	2
Strategic report	3
Directors' report	7
Independent auditors' report	9
Profit and loss account	11
Statement of comprehensive income	12
Balance sheet	13
Statement of changes in shareholders' equity	15
Notes to the financial statements	16-45

HCC INTERNATIONAL INSURANCE COMPANY PLC

COMPANY INFORMATION

Directors:	S A Button B J Cook (Chief Executive Officer) T J G Hervy N I Hutton-Penman H Ishii (appointed 1 November 2016) K L Letsinger N C Marsh (non-executive Chairman) H-D Rohlf (non-executive) C Scarr (non-executive) W R Treen (non-executive) (resigned 31 March 2016)
Company Secretary:	D R Feldman J L Holliday N J Walklett R L Hughes (resigned 29 July 2016)
Registered Number:	1575839
Registered Office:	1 Aldgate London EC3N 1RE
Independent Auditors:	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors 7 More London Riverside London SE1 2RT

HCC INTERNATIONAL INSURANCE COMPANY PLC

STRATEGIC REPORT

The directors of HCC International Insurance Company PLC ('HCCII') present their strategic report for the year ended 31 December 2016.

Principal Activities

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

HCCII's ultimate parent company is Tokio Marine Holdings, Inc. ('TMHD') whose head office is located in Tokyo, Japan. TMHD is a leading international insurance group with offices worldwide. As of 31 December 2016, TMHD had total assets of YEN ¥22.1 trillion (2015: YEN ¥21.9 trillion) and shareholders' equity of YEN ¥3.4 trillion (2015: YEN ¥3.6 trillion). TMHD's major insurance companies have a financial strength rating of A+ (Stable) from Standard & Poor's Financial Services LLC.

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

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

Strategy and Market Conditions

The Company's business philosophy and strategic focus is to underwrite profitable business which includes careful risk selection and reinsurance purchasing in order to preserve shareholder's equity and meet its target risk adjusted return on capital. Underwriting is concentrated in selected, narrowly defined, lines of business where consistent underwriting profit can be achieved. The Company's experienced underwriting personnel with access to, and expertise in, the insurance and reinsurance marketplace has enabled the Company to achieve its strategic objectives. The current rating environment for the London Market lines of business (principally Property Treaty, Property Direct and Facultative, Accident and Health and Energy and Marine) remains extremely challenging as a result of excess capacity in the market leading to decreasing premium volumes. The Specialty lines of business (Professional Risks, Financial Lines, Credit and Political Risk, Surety and Contingency) are also subject to the challenging rating conditions, however they continue to grow organically due to a combination of unique distribution channels and disciplined risk selection. A weaker pound has affected the results of the Company and in particular the Specialty lines as a substantial proportion of this business is in Sterling and this financial statements are prepared in US Dollar, the functional currency of the Company.

The business mix of the Company in 2016 has changed compared to 2015 reflecting a decrease in volume from London Market Lines of business reflective of market conditions; this has been offset by organic growth in the Specialty Lines. 2016 was free of large catastrophes resulting in better than expected profit of the London Market lines of business. The core lines of the Specialty segment performed well and in line or better than expectations. This good performance was dampened by the Lifestyle Travel Medical business (which the Company entered in 2015 and will exit from January 2017). Additionally, the Credit and Political risk business, a long standing and good performing class of business, has had challenging results this year resulting from difficult market conditions. The Company continues to benefit from the strong financial strength rating and backing of its parent and an S&P rating of AA- which remains a significant differentiator and a key selling point in many of the markets in which the Company operates, particularly in the Surety and Financial Lines.

Results and Performance

The Company made a net profit for the financial year of $138.1m (2015: $41.2m) and includes a balance on the technical account for general business of $175.0m (2015: $102.3m). The technical account includes the release of the equalisation provision which is no longer required under Solvency II effective from 1 January 2016, totalled $96.2m (2015: $16.1m additional provision increase) and investment income of $24.2m (2015: $22.4m) has also been recognised in the technical account.

The Balance on the technical account excluding the release of the equalisation provision and investment income is $54.6m (2015: $95.9m). Adjusting for the impact of FX ($6.7m), the technical result was $32.9m lower than 2015 driven by the following; London Market underwriting profits of $12.8m (2015: $27.1m) reflective of less net written premium due to current market conditions; profits from TM HCC Credit business of $3.1m (2015: $12.7m) driven by some poor loss experience in 2016 reflective of the global economic conditions within its markets; $5.9m loss from Lifestyle Travel Medical business which has been exited (2015: $0.11m loss) and $45.3m (2015: $42.4m) profit from the core Specialty business. The catastrophe environment was benign in 2016 and 2015; prior year reserve releases contributed $15.9m (2015: $20.8m) to the technical result.

The decrease in premium resulting from the London market conditions combined with the growth in the Specialty Lines resulted in a change in business mix and a higher net loss ratio. This combined with lower prior year reserve releases and additional current year provisioning for TM HCC Credit and Lifestyle have produced a net loss ratio of 40.5% (2015: 31.9%).

The reported Non-technical profit was $1.9m (2015: $34.5m loss). This is comprised of unrealised net gains and losses on investments of $6.4m gain (2015: $13.0m loss) which is reflective of overall better investment market conditions; $5.1m gain (2015: $2.6m loss) from revaluation, and other charges of $9.5m (2015: $18.9m). 2015 included corporate and employee compensations costs related to the Acquisition.

Key Performance Indicators		**2016**	**2015**
Gross premiums written		$548.6m	$536.4m
Net premiums written	Net of reinsurance	$433.1m	$409.5m
Underwriting result	Balance on technical account (before investment income and equalisation provision)	$54.6m	$95.9m
Net loss ratio	Ratio of net incurred claims (excluding equalisation reserve) to net earned premiums	40.5%	31.9%
Net combined ratio	Ratio of total technical charges (before investment income and equalisation provision) to net earned premiums	87.4%	75.4%
Investment return	Total investment return (excluding FX from revaluation of investments)	$30.6m	$9.4m*
Cash and investments	Excluding investment in subsidiaries and land and buildings	$1,172.1m	$1,099.2m
Total shareholder's funds		$626.9m	$479.4m

*Restated

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

Gross Premium Written

Gross premium written increased $12.2m to $548.6m in 2016 (2015: $536.4m). After eliminating the effect of the stronger US$ in 2016, underlying premium increased $42.8m (average Sterling and Euro rates of exchange have weakened against the dollar by 11.8% and 0.9%, respectively). The $42.8m increase was driven by the growth in the Specialty business largely due to Surety and Lifestyle business (which is included in 'Other' in the GWP table below), offset by a decrease in London Market business which is in line with the rating environment and general soft market conditions.

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

Gross Premium Written	2016 GPW	2015 GPW	Increase/(Decrease)		2015 GPW at 2016 rate	Increase/(Decrease) (excl. FX effect)	
	$'m	$'m	$'m	% change	$'m	$'m	% change
Financial Lines	124.6	125.3	(0.7)	(0.6)%	124.0	0.6	0.5%
Professional Risks	112.0	116.5	(4.5)	(3.9)%	104.4	7.6	7.3%
Credit & Political Risk	79.4	88.6	(9.2)	(10.4)%	83.5	(4.1)	(4.9)%
Surety	76.2	66.8	9.4	14.1%	61.8	14.4	23.3%
Other	61.5	16.8	44.7	266.1%	13.6	47.9	352.2%
Total Specialty Segment	**453.7**	**414.0**	**39.7**	**9.6%**	**387.3**	**66.4**	**17.1%**
Marine & Energy	35.1	54.8	(19.7)	(36.1)%	54.2	(19.1)	(35.2)%
Property Treaty	45.4	51.0	(5.6)	(11.0)%	48.3	(2.9)	(6.0)%
Property D&F and A&H	14.5	16.6	(2.1)	(12.3)%	16.0	(1.5)	(9.4)%
Total London Market	**95.0**	**122.4**	**(27.4)**	**(22.4)%**	**118.5**	**(23.5)**	**(19.8)%**
Total	**548.7**	**536.4**	**12.3**	**2.3%**	**505.8**	**42.9**	**8.5%**

Speciality

Financial Lines gross premium written has remained relatively stable at $124.6m (2015: $125.3m) with minimal currency impact. The Financial Lines business includes principally Directors and Officers ('D&O') liability and Transaction Risk Insurance ('TRI') business. Difficult market conditions in the D&O line of business has resulted in a reduction in gross premium written which has been largely offset by growth in TRI business.

Professional Risks gross premium written has decreased 3.9% to $112.0m (2015: $116.5m), excluding the effect of currency increased by 7.3%. The business is comprised of Professional Indemnity and Liability business where organic growth through product development, new business initiatives and increased regional presence have continued year on year. The Professional Indemnity business is high volume, low premium business underwritten through regional brokers with a focus on client service, the target clients being smaller, lower risk businesses. The Liability business comprises niche products covering lower risk trades and is made up of single risk and select affinity business.

Credit & Political Risk gross premium written has decreased 10.4% to $79.4m (2015: $88.6m), 4.9% excluding the effect of currency. The market has become increasingly challenging due to growing competition and fewer insolvencies encouraging rate reductions. The UK whole turnover Credit business where high service standards position the Company well with clients, has historically experienced good retention levels and this remains high. In 2016, the Company actively sought to widen its niche UK whole turnover Credit distribution network by targeting larger clients and successfully integrating a new Credit underwriting team. The Excess Credit and Political Risk business has maintained its market position with continued benefit from the Company's financial rating.

Surety gross premium written has increased 14.1% to $76.2m (2015: $66.8m); 23.3% excluding the effect of currency. The Company's position in the market and its strong S&P rating provides good opportunities to sell performance bonds & other bond products supporting large multi-national companies involved in significant infrastructure projects.

Other mainly represents Travel Medical business written through coverholders in the UK which had growth of $44.7m in the year to $61.5m and has been discontinued from 1 January 2017.

London Market

Marine & Energy gross premium written decreased 36.1% to $35.1m (2015: $54.8m) with little effect of currency. The Energy market continues to remain challenging due to low oil prices and overcapacity in the insurance market contributing to the low level of income. Continued low oil prices since mid-2014 has contributed to fewer new projects being implemented along with scaling back of major drilling operations, which had a bigger impact in 2016. The difficult environment will likely continue for the foreseeable future with possible further contraction of premium volumes.

Property Treaty gross premium written decreased 11.0% to $45.4m (2015: $51.0m), 6.1% excluding the effect of currency. This is the result of continued softening of the market affecting rates and the non-renewal of business which has not met pricing requirements.

Property Direct & Facultative and Accident & Health gross premium decreased 12.3% to $14.5m (2015: $16.6m), 9.2% excluding the effect of currency. The decrease is due to the continued trend of soft market conditions, increased capacity and competition in this class of business as a result of benign loss experience. These all make writing conditions more challenging for the foreseeable future.

Investment Performance

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

New England Asset Management was investment managers for the US Dollar, Sterling, Euro and CHF funds throughout the year. The funds consist primarily of a portfolio of highly rated Corporate Bonds, which are BBB rated and above, including Bonds guaranteed by the US, UK and German governments. The average duration of the aggregate portfolios at the year-end was 4.01 years (2015: 3.75 years).

Future Outlook

The Company continues to consider profitable opportunities in complimentary and new lines of business, through growth of teams, expansion into new territories, potential acquisitions and utilisation of the Tokio Marine global network.

Dividends

Dividend paid during the year totalled $nil (2015: $8.7m). No final dividend is recommended.

On behalf of the board

B J Cook
Chief Executive Officer

1 Aldgate
London EC3N 1RE
8 May 2017

TOKIO MARINE
HCC

HCC INTERNATIONAL INSURANCE COMPANY PLC

DIRECTORS' REPORT

The directors present their Directors' Report and the audited financial statements of the Company for the year ended 31 December 2016.

Directors

The directors set out below have held office from 1 January 2016 to the date of this report unless otherwise stated:

S A Button
B J Cook (Chief Executive Officer)
T J G Hervy
N I Hutton-Penman
H Ishii (appointed 1 November 2016)
K L Letsinger
N C Marsh (non-executive Chairman)
H-D Rohlf (non-executive)
C Scarr (non-executive)
W R Treen BSc, FIA (non-executive) (resigned 31 March 2016)

Matters disclosed in the Strategic Report

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

Independent Auditors

In connection with new EU requirements, the Company's Board will be undertaking a tender for external audit services for the Company's financial year ending 31 December 2017, subject to approval at the Company's Audit Committee meeting.

Statement of Disclosure of Information to Auditors

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

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are not aware; and
- the director has taken all steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Statement of Directors' Responsibilities

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

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

HCC INTERNATIONAL INSURANCE COMPANY PLC

DIRECTORS' REPORT

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

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

On behalf of the Board

B J Cook
Chief Executive Officer

1 Aldgate
London EC3N 1RE
8 May 2017

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

Report on the financial statements

Our opinion

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

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), comprise:

- the profit and loss account and statement of comprehensive income for the year ended 31 December 2016;
- the balance sheet as at 31 December 2016;
- the statement of changes in shareholders' equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law (United Kingdom Generally Accepted Accounting Practice).

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

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or

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

We have no exceptions to report arising from this responsibility.

Directors' remuneration

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

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on pages 7 and 8, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

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

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

What an audit of financial statements involves

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

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

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

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

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

Paul Pannell (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
8 May 2017

TOKIO MARINE HCC

HCC INTERNATIONAL INSURANCE COMPANY PLC

PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2016

	Note	2016 $'000	Restated 2015 $'000
Technical account - general business			
Earned premiums, net of reinsurance			
Gross premiums written	6	548,630	536,394
Outward reinsurance premiums		(105,550)	(126,864)
Net premiums written		443,080	409,530
Change in the gross provision for unearned premiums		2,103	(20,767)
Change in the provision for unearned premiums, reinsurers' share		(13,409)	1,768
Change in the net provision for unearned premiums		(11,306)	(18,999)
Earned premiums, net of reinsurance		431,774	390,531
Earned investment income transferred from the non-technical account	7	24,157	22,434
Total technical income		455,931	412,965
Claims incurred, net of reinsurance			
Claims paid:			
- gross amount		297,737	176,876
- reinsurers' share		(132,932)	(56,652)
Net claims paid		164,805	120,224
Change in the provision for claims:			
- gross amount		(2,755)	42,574
- reinsurers' share		12,668	(38,328)
Change in the net provision for claims		9,913	4,246
Claims incurred, net of reinsurance		174,718	124,470
Net operating expenses	8	202,448	170,118
Change in equalisation provision		(96,225)	16,057
Total technical charges		280,941	310,645
Balance on the technical account for general business	6	174,990	102,320

All results derive from continuing operations.

TOKIO MARINE
HCC

HCC INTERNATIONAL INSURANCE COMPANY PLC

PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2016

Non-technical account	Note	2016	Restated 2015
		$'000	$'000
Balance on the technical account for general business		174,990	102,320
Investment income	7	27,878	24,699
Earned investment income transferred to general business technical account	7	(24,157)	(22,434)
Unrealised gains on investments	7	8,659	3,523
Unrealised losses on investments	7	(2,237)	(16,555)
Investment expenses and charges	7	(3,743)	(2,217)
Foreign exchange losses from revaluation of investments	7	(25,086)	(15,881)
Foreign exchange gains on revaluation of monetary items other than investments	7	30,203	13,321
Other charges	12	(9,546)	(18,981)
Profit on ordinary activities before tax and exceptional items		176,961	67,795
Exceptional items	13	-	(8,233)
Profit on ordinary activities before tax		176,961	59,562
Tax on profit on ordinary activities	14	(38,863)	(18,334)
Profit for the financial year		138,098	41,228

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Notes	2016	Restated 2015
		$'000	$'000
Profit for the financial year		138,098	41,228
Distributions from subsidiary undertakings	17	-	(32)
Revaluation of subsidiary undertakings	17	662	948
Total comprehensive income		138,760	42,144

TOKIO MARINE HCC

HCC INTERNATIONAL INSURANCE COMPANY PLC

BALANCE SHEET

As at 31 December 2016

	Note	2016	Restated 2015
		$'000	$'000
ASSETS			
Intangible assets			
Goodwill	15	7,725	9,270
Investments			
Land and buildings	16	239	239
Investment in subsidiary undertakings	17	8,208	7,501
Other financial investments	18	1,110,198	1,062,895
		1,118,645	1,070,635
Reinsurers' share of technical provisions			
Provision for unearned premiums		51,385	66,554
Claims outstanding		281,675	293,688
		333,060	360,242
Debtors			
Debtors arising out of direct insurance operations			
- Policyholders		22,957	27,209
- Intermediaries		75,401	59,271
Debtors arising out of reinsurance operations		23,075	41,412
Other debtors	19	50,294	61,770
		171,727	189,662
Other assets			
Tangible assets	20	2,684	2,725
Deposits from third parties		57,812	48,011
Cash at bank and in hand		61,941	36,350
		122,437	87,086
Prepayments and accrued income			
Accrued interest and rent		7,903	8,811
Deferred acquisition costs	8	73,148	74,394
Other prepayments and accrued income		31	182
		81,082	83,387
Total assets		1,834,676	1,800,282

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HCC INTERNATIONAL INSURANCE COMPANY PLC

BALANCE SHEET

As at 31 December 2016

	Note	2016	2015
		$'000	$'000
LIABILITIES			
Capital and reserves			
Called up share capital	21	233,242	224,405
Revaluation reserve		8,208	7,546
Profit and loss account		385,521	247,423
Total shareholders' funds		626,971	479,374
Technical provisions			
Provision for unearned premiums		281,353	289,977
Claims outstanding		712,314	750,029
Equalisation provision		-	96,225
		993,667	1,136,231
Creditors			
Creditors arising out of direct insurance operations		12,696	12,624
Creditors arising out of reinsurance operations		51,447	58,294
Other creditors including taxation and social security	22	48,250	27,030
Deposits from third parties		57,812	48,010
		170,205	145,958
Accruals and deferred income		43,833	38,719
Total liabilities		1,834,676	1,800,282

The financial statements on pages 11 to 45 were approved by the Board of Directors and were signed on its behalf by

K L Letsinger
Director

8 May 2017

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HCC INTERNATIONAL INSURANCE COMPANY PLC

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended 31 December 2016

Capital and reserves	Called up share capital $000	Revaluation reserve $'000	Other reserves $'000	Profit and loss account $'000	Total shareholders' equity $000
At 1 January 2016	224,405	7,546	-	247,423	479,374
Profit for the financial year	-	-	-	138,098	138,098
Issued share capital	8,837	-	-	-	8,837
Revaluation of subsidiary undertakings	-	662	-	-	662
At 31 December 2016	233,242	8,208	-	385,521	626,971

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

1. General information

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

2. Statement of compliance

The individual financial statements of the Company have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ('FRS 102'), Financial Reporting Standard 103, "Insurance Contracts" ('FRS 103') and the Companies Act 2006.

3. Summary of significant accounting policies

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

a. Basis of preparation

These financial statements have been prepared in conformity with FRS 102 & 103. FRS 102 & 103 requires financial statement disclosure about the use of certain critical accounting estimates for which management has exercised judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

Restatement reclassification of comparatives

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

b. Going concern

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

c. Exemptions for qualifying entities under FRS 102

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

i. preparing group financial statements. The financial statements present information about the Company as an individual undertaking and not about its group, except for accounting for its investment in subsidiary undertakings at current net asset value (see Note 17);
ii. preparing a statement of cash flows; and
iii. related party disclosures.

d. Foreign currency

The Company's accounting records are maintained in US Dollars, which is the Company's functional and presentation currency. Foreign currency transactions are recorded using the spot exchange rates at the dates of the transactions into the functional currency. At each period end, foreign currency monetary assets and liabilities are revalued using the closing rate. For this purpose all assets and liabilities arising from insurance contracts (including unearned premiums, deferred acquisition costs and unexpired risks provisions) are monetary items. Differences arising on the revaluation of foreign currency amounts to the functional currency are recognised in the non-technical profit and loss account.

e. Insurance contracts

i. Classification of insurance and investment contracts

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

ii. Insurance contracts

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

a. Premiums written

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

b. Unearned premiums

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

c. Acquisition costs

Acquisition costs, which represent commission and other related expenses, are deferred over the period in which the related premiums are earned.

d. Claims incurred

Claims incurred comprise claims and related expenses paid in the year and changes in the provisions for outstanding claims, including provisions for claims incurred but not reported and related loss adjustment expenses, together with any other adjustments to claims for previous years. Where applicable, deductions are made for salvage and other recoveries.

e. Claims provisions and related reinsurance recoveries

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

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

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

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

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

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

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

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

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

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

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

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

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

f. Equalisation provision
Under the Solvency I regime an equalisation provision was required to be held over and above a company's technical provisions for certain classes of business. With the introduction of Solvency II there is no longer a requirement to hold the equalisation provision. In previous years, an amount was set aside as equalisation provision in accordance with the PRA's Handbook for the purpose of mitigating exceptionally high loss ratios in future years. With effect 1 January 2016 the equalisation provision balance was released to the General Technical Account.

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

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

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

i. Business combinations
Merger and Portfolio transfer
Effective 31 March 2015, the assets, liabilities and operations of Houston Casualty Company Europe, Seguros y Reaseguros, S.A. ('HCCE'), previously a wholly owned subsidiary of the Company, were merged with the Company ('the Merger'). The directors elected to account for the Merger as a portfolio transfer at the date of the Merger in accordance with FRS 103 (see Note 11).

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

k. Goodwill
The Company's goodwill arose from the purchase of a book of Professional Indemnity business from another group company in 2006 (see Note 15) and was capitalised at cost and is being amortised over its useful economic life on a straight line basis over 15 years (see Note 12). Each year the directors consider whether the carrying value of the goodwill has been impaired due to events or changes in circumstances which indicate that its value may not be recoverable.

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

m. Tangible assets

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

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

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

n. Impairment of non-financial assets

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

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

o. Investments in subsidiary undertakings

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

p. Cash and cash equivalents

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

q. Provisions and contingencies

Provisions

Provisions are recognised when:

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

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

Contingencies

Contingent liabilities arise as a result of past events when:

(i) it is not probable that there will be an outflow of resources or that the amount cannot be reliably measured at the reporting date; or
(ii) When the existence will be confirmed by the occurrence or non-occurrence of uncertain future events not wholly within the Company's control.

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

r. Financial instruments

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

s. Financial assets

The Company classifies its financial assets into the following categories:

- Shares and other variable yield securities and units in unit trusts -at fair value through profit or loss;
- Debt securities and other fixed-income securities - at fair value through profit or loss;
- Equity securities – at fair value through profit or loss; and
- Deposits with credit institutions - loans and receivables.

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

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

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

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

Deposits with credit institutions - Loans and receivables

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

t. Impairment of financial assets

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

- significant financial difficulty of the issuer or debtor;
- a breach of contract such as a default or delinquency in payments;
- it becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flow from a

group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:

- adverse changes in the payment status of issuers or debtors in the group; or
- national or local economic conditions that correlate with defaults on the assets in the Company.

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

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

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

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

u. Financial liabilities

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

v. Investment return

Interest income is recognised using the effective interest rate method. Dividend income is recognised when the right to receive payment is established. Rental income and investment expenses are accounted for on an accruals basis.

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

Investment return is initially recorded in the non-technical account. A transfer is made from the non-technical account to the technical account for the earned investment income on investments supporting the insurance technical provisions and related shareholder's funds. This transfer is made so that the balance on the technical account is based on a longer-term rate of investment return and is not subject to distortion from short-term fluctuations in investment return.

w. Distributions to equity holders

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

x. Share based payments
The Company has applied FRS 102 in its accounting for share options and restricted awards and units. See Note 12.

4. Critical accounting judgements and estimation uncertainty

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

Significant judgements in applying the accounting policies

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

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

The estimate of the ultimate liability arising from claims made under insurance contracts is the Company's most critical accounting estimate. The carrying amount of the claims outstanding, net of reinsurance, is $430.6m (2015: $456.3m). There are many sources of uncertainty that need to be considered in the estimate of the liability that the Company will ultimately pay for such claims. The level of provision has been set on the basis of the information that is currently available, including potential outstanding loss advices, experience of development of similar claims, historical experience, case law and legislative and judicial actions.

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

ii. Fair value of financial instruments

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

If quoted prices are unavailable, observable prices for recent arm's length transactions for an identical asset are used to determine its fair value. The carrying value of these instruments is $1,016.3m (2015: $987.5m), see Note 5.5 for pricing basis. The Company uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period.

iii. Estimated impairment of goodwill

In accordance with the accounting policy stated in Note 3 (k), goodwill is capitalised at cost and amortised over its useful economic life on a straight line basis over 15 years. On an annual basis the directors consider whether there are any events or changes in circumstances which indicate that the carrying value of goodwill may not be recoverable. Any decrease in its value would affect the Company's financial position.

iv. Pipeline premium

The Company makes an estimate of premiums written during the year that have not yet been notified by the financial year end ('pipeline premiums') based on prior year experience and current year business volumes. The pipeline premium is booked as written and an assessment is made of the related unearned premium provision and an estimate of claims incurred but not reported in respect of the earned element. The pipeline premium included within net written premium is $32.3m (2015: $35.4m).

5. Risk management

The Company has identified the risks arising from its activities and has established policies and procedures to manage these risks in accordance with its risk appetite. The Company maintains a risk register and categorises its risks into six areas: Insurance; Strategic, Regulatory and Group; Market; Operational Credit; and Liquidity. The

sections below outline the Company's risk appetite and explain how it defines and manages each category of risk.

5.1 Insurance risk

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

i. Underwriting risk

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

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

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

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

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

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

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

The annual corporate budgeting process comprises a three year Plan which incorporates the Company's underwriting strategy by line of business and sets out the classes of business, the territories and the industry sectors in which business is to be written. The Plan is approved by the directors and monitored by the underwriting committees on a monthly basis.

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

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

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

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

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

The Company's catastrophe risk appetite set by the directors is limited to a gross PML aggregate of no more than 200% of Capital and for a probability of gross catastrophe event exceeding 50% of Capital of less than 1%. Additionally, the appetite for non-modelled risk and other potential non-Natural Catastrophe perils is in line with the Catastrophe appetites noted above.

ii. Reinsurance risk

Reinsurance risk arises where reinsurance contracts:

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

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

The purchase of reinsurance is a key tool utilised to manage underwriting risk. The Company's reinsurance programme is comprised predominantly of excess of loss cover which may be over placed to protect against reinstatement costs. Prior to placement of the programme, it is modelled against significant historic and modelled events across the peak exposure areas. The programme is purchased on a class of business basis, modelling catastrophe, large and attritional losses separately.

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

iii. Claims management risk

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

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

iv. Reserving risk

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

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

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

Gross and net development triangles of the estimate of ultimate claim cost for claims notified in a given year are presented below and give an indication of the accuracy of the Company's estimation technique for claims payments. Data has been translated using 31 December 2016 foreign exchange rates throughout the triangle.

Loss development triangles – GROSS	Accident year						
Ultimate claims and cumulative payments	**2011 $'000**	**2012 $'000**	**2013 $'000**	**2014 $'000**	**2015 $'000**	**2016 $'000**	**TOTAL $'000**
End of reporting year	243,029	150,170	184,373	158,396	443,343	254,217	
- one year later	247,930	119,364	197,946	162,142	513,276		
- two years later	235,003	128,783	195,698	136,696			
- three years later	230,291	130,533	177,300				
- four years later	210,602	141,710					
- five years later	206,034						
Current estimate of ultimate claims	206,034	141,710	177,300	136,696	513,276	254,217	
Cumulative payments to date	(176,072)	(96,766)	(124,386)	(66,806)	(225,070)	(64,937)	
Liability recognised in the balance sheet	29,962	44,944	52,914	69,890	288,206	189,280	675,196
Provision in respect of previous years							37,118
Total provision included in the balance sheet							712,314

Loss development triangles – NET	Accident year						
Ultimate claims and cumulative payments	**2011 $'000**	**2012 $'000**	**2013 $'000**	**2014 $'000**	**2015* $'000**	**2016 $'000**	**TOTAL $'000**
End of reporting year	126,852	116,449	157,760	120,484	242,579	185,120	
- one year later	127,950	115,644	155,085	121,459	254,131		
- two years later	116,748	103,472	144,853	101,608			
- three years later	117,508	99,176	138,610				
- four years later	112,666	95,958					
- five years later							
Current estimate of ultimate claims	110,496	95,958	138,610	101,608	254,131	185,120	
Cumulative payments to date	(91,973)	(76,763)	(96,169)	(57,523)	(97,112)	(58,948)	
Liability recognised in the balance sheet	18,523	19,195	42,441	44,085	157,019	126,172	407,435
Provision in respect of previous years							23,204
Total provision included in the balance sheet							430,639

*The increase in the 2015 accident year reserves is due to the Merger, effective 1 April 2015. See Note 11.

5.2 Strategic, regulatory and group risk

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

i. **Strategic risk**

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

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

ii. Regulatory risk

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

The Company estimates it Economic capital requirements using an internal model (the Economic Capital Model ('ECM')) which, the Directors believe, is the most appropriate tool to determine the Company's medium term capital needs. However, the Company is currently outside of the PRA Internal Model Approval Process ('IMAP') and since 1 January 2016 has measured regulated capital requirement using the Standard Formula Solvency Capital Requirement ('SF SCR'). The Board has reviewed the SF SCR against the ECM and has concluded that the SF SCR is appropriate. The SF SCR is measured against the Company's Solvency II Available Assets to monitor its Solvency. Given the inherent volatility of the SF SCR and Solvency II Available Assets, the Company carries an amount in excess of the regulatory minimum. At 31 December 2016, the estimated Solvency II Available Assets were 190% in excess of the regulatory minimum.

iii. Group risk

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

a. Contagion

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

b. Reputation

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

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

5.3 Market risk

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

Managing investment risk as a whole is fundamental to the operation and development of the Company's investment strategy key to the investment of Company assets.

The investment strategy is developed by reference to an investment risk budget, set annually by the directors as part of the overall risk budgeting framework of the business. In 2016, the investment risk budget was set at a level such that the amount of an investment loss, at the 1-in-200 Tail Value at Risk (TVaR) level, was limited to the Company's excess capital (above the regulatory minimum). This was the result of a complete investment strategy review carried out by the Company's Investment Managers, New England Asset Management Ltd. The investment risk budget will be at a similar level in 2017.

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

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

i. Foreign exchange risk

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

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

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

FX risk exposure	AUD $	CAD $	CHF Fr	EUR €	GBP £	Subtotal	USD $	Total
31 December 2016	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Total assets	23,206	2,793	27,244	330,100	328,445	711,788	1,122,888	1,834,676
Total liabilities	(28,145)	(1,238)	(17,476)	(371,854)	(402,374)	(821,087)	(386,618)	(1,207,705)
Net assets	**(4,939)**	**1,555**	**9,768**	**(41,754)**	**(73,929)**	**(109,299)**	**736,270**	**626,971**
Net profit	**212**	**961**	**(6,324)**	**(12,780)**	**9,620**	**(8,311)**	**(129,787)**	**(138,098)**

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

Sensitivity analysis

Fluctuations in the Company's operating currencies against US Dollars would result in a change to net profit and net asset value. The table below gives an indication of the impact on net profit and net assets of a percentage change in the relative strength of the US Dollar against the value of the 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, Euro and Sterling, relative to US Dollar	**2016 $'000**	**2015 $'000**	**2016 $'000**	**2015 $'000**
US Dollar weakens 30% against other currencies	(1,995)	664	(32,789)	(30,079)
US Dollar weakens 20% against other currencies	(1,330)	443	(21,860)	(20,053)
US Dollar weakens 10% against other currencies	(665)	221	(10,930)	(10,026)
US Dollar strengthens 10% against other currencies	665	(221)	10,930	10,026
US Dollar strengthens 20% against other currencies	1,330	(443)	21,860	20,053
US Dollar strengthens 30% against other currencies	1,995	(664)	32,789	30,079

ii. Interest rate risk

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

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

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

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

Investments and cash - duration 31 December 2016	**<1 yr $'000**	**1-2 yrs $'000**	**2-3 yrs $'000**	**3-4 yrs $'000**	**4-5 yrs $'000**	**5-10 yrs $'000**	**>10 yrs $'000**	**Total $'000**
Variable yield securities	32,520	-	-	-	-	-	-	32,520
Debt securities	175,300	125,177	119,215	195,243	127,223	74,481	184,034	1,000,673
Equity securities	77,005	-	-	-	-	-	-	77,005
Total other financial investments	**284,825**	**125,177**	**119,215**	**195,243**	**127,223**	**74,481**	**184,034**	**1,110,198**
Deposits from third parties	57,812	-	-	-	-	-	-	57,812
Cash at bank	61,941	-	-	-	-	-	-	61,941
Total	**404,578**	**125,177**	**119,215**	**195,243**	**127,223**	**74,481**	**184,034**	**1,229,951**

Investments and cash - duration 31 December 2015	<1 yr $'000	1-2 yrs $'000	2-3 yrs $'000	3-4 yrs $'000	4-5 yrs $'000	5-10 yrs $'000	>10 yrs $'000	Total $'000
Variable yield securities	19,544	-	-	-	-	-	-	19,544
Debt securities	123,212	153,332	143,915	198,061	134,014	64,289	156,058	972,881
Equity securities	70,470	-	-	-	-	-	-	70,470
Total other financial investments	**213,226**	**153,332**	**143,915**	**198,061**	**134,014**	**64,289**	**156,058**	**1,062,895**
Deposits from third parties	48,011	-	-	-	-	-	-	48,011
Cash at bank	36,350	-	-	-	-	-	-	36,350
Total	**297,587**	**153,332**	**143,915**	**198,061**	**134,014**	**64,289**	**156,058**	**1,147,256**

Sensitivity analysis

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

Investments and cash – interest rate sensitivity	Impact on profit after tax		Impact on net assets	
Shift in yield (basis points)	2016 $'000	2015 $'000	2016 $'000	2015 $'000
100 basis point increase	(29,833)	(27,612)	(29,833)	(27,612)
50 basis point increase	(14,916)	(13,806)	(14,916)	(13,806)
50 basis point decrease	14,758	11,875	14,758	11,875
100 basis point decrease	29,517	23,750	29,517	23,750

5.4 Operational risk

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

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

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

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

The Company therefore seeks at all times to perform its business activities in a manner that is not only fair, honest and transparent but that also complies fully with applicable UK and International laws and regulations and internal policies and procedures. The Company ensures that this ethos is clearly

communicated from the Board of directors downwards to all members of staff and oversight is provided throughout the governance structure, primarily by way of the Product Governance and Distribution Committee. Day-to-day responsibility for monitoring the fair treatment of customers and broader aspects of conduct risk resides with the International Compliance Department which undertakes scheduled reviews as part of a comprehensive Compliance Monitoring schedule.

5.5 Credit risk

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

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

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

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

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

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

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

Investments and cash – credit ratings 31 December 2016	**AAA $'000**	**AA $'000**	**A $'000**	**BBB $'000**	**BB $'000**	**Total $'000**
Variable yield securities	32,520	-	-	-	-	32,520
Debt securities	118,783	479,625	275,769	115,563	10,933	1,000,673
Equity securities	77,005	-	-	-	-	77,005
Total other financial investments	**228,308**	**479,625**	**275,769**	**115,563**	**10,933**	**1,110,198**
Cash at bank	61,941	-	-	-	-	61,941
Total	**290,249**	**479,625**	**275,769**	**115,563**	**10,933**	**1,172,139**

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

The Company's largest counterparty exposure is $176.5 of US Government securities (2015: $178.7m).

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

Financial assets – ageing 31 December 2016	Not yet due $'000	Up to 3 months past due $'000	3 to 6 months past due $'000	7 to 12 months past due $'000	> 1 year past due $'000	Total $'000
Reinsurers share of claims outstanding	281,675	-	-	-	-	281,675
Insurance debtors	82,145	8,976	4,834	2,403	-	98,358
Reinsurance debtors	19,122	2,189	1,179	585	-	23,075
Other debtors	50,294	-	-	-	-	50,294
Total	**433,236**	**11,165**	**6,013**	**2,988**	-	**453,402**

Financial assets – ageing 31 December 2015	Not yet due $'000	Up to 3 months past due $'000	3 to 6 months past due $'000	7 to 12 months past due $'000	> 1year past due $'000	Total $'000
Reinsurers share of claims outstanding	293,688	-	-	-	-	293,688
Insurance debtors	73,713	7,157	2,288	3,322	-	86,480
Reinsurance debtors	35,299	3,427	1,095	1,591	-	41,412
Other debtors	61,170	-	-	-	-	61,170
Total	**463,870**	**10,584**	**3,383**	**4,913**	-	**482,750**

Fair value estimation

The following table presents the Company's financial investments measured at fair value at 31 December 2016 and 31 December 2015 categorised into levels 1, 2 and 3, reflecting the categorization criteria specified in FRED 62. No liabilities were measured at fair value at 31 December 2016 or 31 December 2015.

Financial investments – pricing basis	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
31 December 2016				
Variable yield securities	-	32,520	-	32,520
Debt securities	16,858	983,815	-	1,000,673
Equity securities	77,005	-	-	77,005
Total other financial investments	**93,863**	**1,016,335**	-	**1,110,198**

Financial investments – pricing basis	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
31 December 2015				
Variable yield securities	-	19,544	-	19,544
Debt securities	4,956	967,925	-	972,881
Equity securities	70,470	-	-	70,470
Total other financial investments	**75,426**	**987,469**	**-**	**1,062,895**

FRED 62defines the disclosure of investments levels as follows:

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

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

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

The Company's Level 2 investments include most of its fixed maturity securities, which consist of U.S. government agency securities, foreign government securities, municipal bonds (including those held as restricted securities), corporate debt securities, bank loans, middle market senior loans, foreign debt securities, mortgage-backed and asset-backed securities (including collateralized loan obligations). The Company measures fair value for the majority of its Level 2 investments using matrix pricing and observable market data, including benchmark securities or yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, bids, offers, default rates, loss severity and other economic measures. The Company measures fair value for its structured securities using observable market data in cash flow models.

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

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

No markets for the Company's investments were judged to be inactive at period end. Based on these procedures, the Company did not adjust the prices or quotes provided by its independent pricing services, third party investment managers as of 31 December 2016 or 31 December 2015.

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

The Company has no Level 3 securities.

5.6 Liquidity risk

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

The Company's approach is to manage its liquidity position so that it can reasonably survive a significant individual or market loss event (details of the Company's management of its exposure to loss scenarios are

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provided in Note 5.1.i). This means that the Company maintains sufficient liquid assets, or assets that can be readily converted into liquid assets at short notice, to meet expected cash flow requirements. These liquid funds are regularly monitored using cash flow forecasting to ensure that surplus funds are invested to achieve a higher rate of return. The Company can also draw on group funds to bridge short-term cash flow requirements. The following table is an analysis of the net contractual cash flows based on all the liabilities held at 31 December 2016 and 2015:

Financial liabilities – projected cash flows 31 December 2016	**Within 1yr $'000**	**1-3 years $'000**	**3-5 years $'000**	**>5 years $'000**	**Total $'000**
Net claims outstanding	132,009	152,804	72,383	73,443	430,639
Creditors from direct insurance operations	12,696	-	-	-	12,696
Creditors from reinsurance operations	51,447	-	-	-	51,447
Other creditors	48,250	-	-	-	48,250
Total	**244,402**	**152,804**	**72,383**	**73,443**	**543,032**

Financial liabilities – projected cash flows 31 December 2015	**Within 1yr $'000**	**1-3 years $000**	**3-5 years $000**	**>5 years $000**	**Total $000**
Net claims outstanding	130,984	169,614	76,923	78,820	456,341
Creditors from direct insurance operations	12,624	-	-	-	12,624
Creditors from reinsurance operations	58,294	-	-	-	58,294
Other creditors	27,030	-	-	-	27,030
Total	**228,932**	**169,614**	**76,923**	**78,820**	**554,289**

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 2016	**Within 1yr $'000**	**1-3 years $'000**	**3-5 years $'000**	**>5 years $'000**	**Total $'000**
Variable yield securities	32,520	-	-	-	32,520
Debt securities	126,683	204,693	137,145	532,152	1,000,673
Equity securities	77,005	-	-	-	77,005
Total other financial investments	**126,208**	**204,693**	**137,145**	**532,152**	**1,110,198**
Cash at bank	61,941	-	-	-	61,941
Total	**298,149**	**204,693**	**137,145**	**532,152**	**1,172,139**

Investments and cash - maturity 31 December 2015	**Within 1yr $'000**	**1-3 years $000**	**3-5 years $000**	**>5 years $000**	**Total $000**
Variable yield securities	19,544	-	-	-	19,544
Debt securities	68,769	221,369	158,715	524,028	972,881
Equity securities	70,470	-	-	-	70,470
Total other financial investments	158,783	221,369	158,715	524,028	1,062,895
Cash at bank	36,350	-	-	-	36,350
Total	**195,133**	**221,369**	**158,715**	**524,028**	**1,099,245**

TOKIO MARINE HCC

6. Segmental information

(a) Underwriting result by class of business

2016	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	13,104	12,583	4,283	5,760	(3,356)	(816)
Credit, political risk and suretyship	147,199	145,052	101,431	55,546	22,212	10,287
Travel	58,810	54,701	31,290	30,036	(103)	(6,728)
Marine, aviation and transport	22,759	22,862	33,791	8,384	30,762	11,449
Miscellaneous	9,220	8,072	(3,138)	4,070	(12,365)	(5,225)
Third party liability	204,048	204,389	87,130	84,894	(11,492)	20,873
Total direct	455,140	447,659	254,787	188,690	25,658	29,840
Reinsurance acceptances	93,490	103,074	40,195	32,115	(5,996)	24,768
Total	548,630	550,733	294,982	220,805	19,662	54,608
Investment return						24,157
Equalisation provision						96,225
Technical account						174,990

2015 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	11,632	13,135	7,405	5,893	(1,361)	(1,524)
Credit, political risk and suretyship	152,281	140,180	80,937	57,085	26,323	28,481
Travel	11,926	10,353	3,942	7,035	(63)	(687)
Marine, aviation and transport	25,819	29,564	23,298	8,882	(1,818)	(4,434)
Miscellaneous	8,062	7,812	(8,206)	3,687	(11,994)	337
Third party liability	208,321	187,857	79,096	71,864	(8,569)	28,328
Total direct	418,041	388,901	186,472	154,446	2,518	50,501
Reinsurance acceptances	118,353	126,726	32,978	39,246	(9,060)	45,442
Total	536,394	515,627	219,450	193,692	(6,542)	95,943
Investment return						22,434
Equalisation provision						(16,057)
Technical account						102,320

The reinsurance balance represents the (charge)/credit to the technical account from the aggregate of all items relating to reinsurance outwards.

The 2015 Underwriting result by class of business was restated to present separately Travel class of business previously included as part of Miscellaneous.

(b) Geographical location of underwriting operations

	Gross premiums written		Profit before taxation and exceptional items		Net assets	
	2016	2015	2016	2015	2016	2015
	$'000	$'000	$'000	$'000	$'000	$'000
United Kingdom	421,916	404,265	176,995	48,637	615,431	469,095
Rest of Europe	126,714	132,129	(34)	19,158	11,540	10,279
	548,630	536,394	176,961	67,795	626,971	479,374

(c) Geographical location of gross premiums written by destination

	2016	2015
	$'000	$'000
United Kingdom	286,791	269,747
Rest of Europe	159,310	173,400
Rest of the World	102,529	93,247
	548,630	536,394

7. Investment return

	2016	Restated 2015
	$'000	$'000
Investment income:		
Income from other financial investments at fair value through profit or loss	24,269	22,295
Bank interest receivable and similar income	(30)	(1)
Investment property rental income	8	18
Distributions from group undertakings	-	32
Gains on the realisation of financial investments at fair value through profit or loss excluding FX from revaluation	3,631	2,355
	27,878	24,699
Investment expenses and charges:		
Investment management fees and charges	(1,692)	(1,480)
Losses on the realisation of financial investments at fair value through profit or loss excluding FX from revaluation	(2,051)	(737)
	(3,743)	(2,217)
Net unrealised gains (losses) on investments:		
Unrealised gains on financial investments at fair value through profit or loss excluding FX from revaluation	8,659	3,523
Unrealised losses on financial investments at fair value through profit or loss excluding FX from revaluation	(2,237)	(16,555)
	6,422	(13,032)
Total investment return	30,557	9,450

	2016	2015 Restated
Allocation of investment return:	**$'000**	**$'000**
Earned investment income allocated to the general business technical account	24,157	22,434
Investment return allocated to the non-technical account	6,400	(12,984)
Total Investment return	30,557	9,450

The Company recorded $25.1m foreign exchange losses in revaluation of the non-US Dollar investment portfolio (2015: $15.9m losses). Additionally foreign exchange gains on revaluation of other non-USD Dollar monetary assets and liabilities totalled $30.2.m (2015: $13.3m gains).

2015 Investment return was restated to reflect reclassification of foreign exchange losses on investments separately in Profit and Loss account.

8. Net operating expenses

	2016	2015
	$'000	**$'000**
Commission costs	136,165	120,563
Reinsurance commissions and profit participation	(18,357)	(23,573)
Change in deferred acquisition costs	(132)	(8,866)
Deferred acquisition costs	117,676	88,124
Administrative expenses	84,772	81,994
	202,448	170,118

Total commission written during the year in respect of direct insurance was $99.4m (2015: $101.2m).

Deferred acquisition costs reconciliation	2016	2015
	$'000	**$'000**
At 1 January	74,394	65,305
Expenses for the acquisition of insurance deferred during the year	117,808	96,990
Amortisation	(117,676)	(88,124)
Foreign exchange losses	(1,378)	223
At 31 December	73,148	74,394

9. Staff costs

All staff are employed by HCC Service Company Inc. (UK branch). The disclosures for staff costs below relate to underwriting and other direct staff only. The costs of staff providing central services for group entities are allocated and recharged to the Company as a management fee. These staff are not included in salary costs and average staff numbers as it is not practical to allocate them to the underlying entities to which the staff provides services.

	2016	2015
	$'000	**$'000**
Wages and salaries	25,332	22,020
Social security costs	2,936	3,952
Other pension costs	1,419	1,271
	29,687	27,243

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

	2016 Number	2015 Number
Underwriting	115	110
Claims	9	15
Administration and finance	29	29
	153	154

Directors' emoluments

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

	2016 $'000	2015 $'000
Aggregate emoluments (excluding share options and awards)	4,478	4,506
Pension contributions	45	157
	4,523	4,663

Pension benefits are accruing to four directors (2015: five) under the Group's defined contribution pension scheme. In 2015, principally as a result of the TMHD Acquisition, five directors received cash totalling $8.7m from the accelerated vesting of restricted awards and share options, some of which had been expensed in previous years (see Note 12).

Highest paid director	2016 $'000	2015 $'000
Aggregate emoluments (excluding share options and awards)	1,631	1,316
Pension contributions	-	-
	1,631	1,316

Share options and restricted awards and units vested at the date of the TMHD acquisition as the plan was closed. In 2015, the highest paid director received $3.7m from share options.

10. Auditors' remuneration

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

	2016 $'000	2015 $'000
Audit of the Company's financial statements	527	479
Audit of the Company's subsidiary undertakings' financial statements	-	-
Audit-related assurance services	186	77
Tax compliance services	19	30
Tax advisory services	7	142
	739	728

11. Business combination

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

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

Gross premium written of $5.6m was recorded in 2015 which represented the amount of the unearned premium reserve at the Merger date.

12. Other charges

	2016	2015 Restated
	$'000	$'000
Corporate oversight costs	3,180	7,961
Continental Europe Office closure costs	3,157	-
Acquisition service awards	1,664	-
Amortisation of goodwill (Note 15)	1,545	1,545
Share based compensation*	-	8,892
Impairment expense on owner occupied land and buildings	-	583
	9,546	18,981

The 2015 Other charges was restated to reflect reclassification of foreign exchange gains on revaluation of monetary items other than investments separately in Profit and Loss account.

***Share based compensation**

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

13. Exceptional items

	2016	2015
	$'000	$'000
Revaluation gain / (Impairment expense) on investment in subsidiary undertakings	-	(8,233)

The book value of HCC Diverificación y Soluciones S.L., a subsidiary of the Company, decreased below the original cost and an impairment totalling $0.045m was recorded in the Profit and Loss account in 2015. In 2016 the subsidiary was revalued giving rise to a revaluation gain recognised in the Profit and Loss account.

The Company historically valued its investment in HCCE at fair value which was equivalent to net book value. In 2015, the net book value decreased below the original cost causing an impairment expense booked in the Profit and Loss account totalling $8.23m. After revaluation of investment, HCCE was merged into the Company's operation in 1 April 2015 (Note 11) thus eliminating the investment in subsidiary undertaking of the Company onwards.

14. Tax on profit on ordinary activities

	2016	2015
	$'000	$'000
UK Corporation tax at 20.0% (2015: 20.25%)		
Current tax on income for the year	22,566	16,615
Tax payments in respect of prior years	(121)	1,578
Current tax charge for the year	22,445	18,193
Deferred tax – origination and reversal of timing differences	16,418	141
Tax on profit on ordinary activities	38,863	18,334

The tax assessed for the year is higher (2015: higher) than the standard rate of corporation tax in the UK. The differences are explained below:

	2016	2015
	$'000	$'000
Profit on ordinary activities before taxation	176,961	59,562
Tax on profit on ordinary activities at standard rate of 20.0% (2015: 20.25%)	35,392	12,061
Exceptional item which has no tax effect	-	1,667
Expenses not deductible for tax purposes	337	357
Amortisation of goodwill	386	313
Deferral of taxation on release of Equalisation Reserve	(16,038)	-
Depreciation of capital allowances in excess	(25)	168
Tax payments in respect of prior years	(121)	1,578
Effect of foreign exchange	2,397	2,055
Other	117	(6)
Current tax charge for the year	22,445	18,193

The calculation of deferred tax balances at the year-end takes into account the reduction in the UK main corporation tax rate from 20% to 19.0% that will be effective from 1 April 2017 and to 17.0% that will be effective from 1 April 2020.

15. Goodwill

	2016	2015
	$'000	$'000
Cost		
At 1 January	23,176	23,176
At 31 December	**23,176**	**23,176**
Accumulated amortisation		
At 1 January	13,906	12,361
Amortisation charge for the year	1,545	1,545
At 31 December	**15,451**	**13,906**
Net book value		
At 31 December	**7,725**	**9,270**

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

16. Land and buildings

	2016	2015
	$'000	$'000
Leasehold land and buildings	239	239

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

17. Investment in subsidiary undertakings

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

	2016	2015
	$'000	$'000
At 1 January	7,501	44,633
Distributions received from subsidiary undertakings	-	(32)
Revaluation of subsidiary undertakings	2,058	948
Impairment expense	-	(8,233)
Effect of Merger (Note 13) and dissolution of subsidiary undertakings	-	(29,570)
Foreign exchange impact on translation to closing rate	(1,351)	(245)
At 31 December	8,208	7,501

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

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

Name	**Principal activity**	**Class of**	**Effective**
HCCI Credit Services Limited	Information services	Ordinary	100%
HCC Diversificación y Soluciones S.L. (incorporated in Spain)	Dormant	Ordinary	100%

All subsidiary companies are directly held and are incorporated in England and Wales unless otherwise stated above. The registered office for HCCI Credit Services Limited is The Grange, Rearsby. Leicester LE7 4FY and the registered office for HCC Diversificación y Soluciones S.L. is Plaza de Colón 2, Torre de Colón, Torre 1, 3ª Planta, Madrid 28046, Spain.

18. Other financial investments

	Fair value or amortised		Book cost	
	2016	2015	2016	2015
	$'000	$'000	$'000	$'000
Variable yield securities and units in unit trusts	32,520	19,544	32,520	19,544
Debt securities and other fixed-income securities	1,000,673	972,881	1,038,013	924,344
Equity shares	77,005	70,470	74,228	71,709
	1,110,198	1,062,895	1,144,761	1,015,597

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

19. Other debtors

	2016	2015 Restated
	$'000	$'000
Other debtors	39,400	42,291
Deferred tax asset	-	73
Amounts owed by group companies	10,894	19,406
	50,294	61,770

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.

2015 was restated to reflect reclassification of certain Debtors arising out of reinsurance operations to Other debtors.

TOKIO MARINE HCC

HCC INTERNATIONAL INSURANCE COMPANY PLC

NOTES TO THE FINANCIAL STATEMENTS

20. Tangible assets

	Owner occupied Leasehold improveme	Owner occupied Land and Buildings	Computer equipment	Fixtures, fittings and office equipment	Total
	$'000	$'000	$'000	$'000	$'000
Book cost					
At 1 January 2016	1,466	3,549	19	1,827	6,861
Additions	-	23	-	-	23
Valuation adjustment	-	-	-	-	-
Disposals	-	-	-	-	-
Foreign exchange impact of translation to closing rate	-	-	-	3	3
At 31 December 2016	**1,466**	**3,572**	**19**	**1,830**	**6,887**
Accumulated depreciation					
At 1 January 2016	1,466	839	19	1,812	4,136
Charge for the year	-	61	-	6	67
Disposals	-	-	-	-	-
At 31 December 2016	**1,466**	**900**	**19**	**1,818**	**4,203**
Net book value					
31 December 2016	**-**	**2,672**	**-**	**12**	**2,684**
31 December 2015	**-**	**2,710**	**-**	**15**	**2,725**

Land and buildings is occupied by the Company for its own use and is being depreciated over 50 years through June 2045.

21. Called up share capital

	2016		2015	
Allotted, called up and fully paid Ordinary Shares	Number of Shares	$'000	Number of Shares	$'000
Balance brought forward:				
- Ordinary shares of £1 each	96,047,813	163,045	96,047,813	163,045
- Ordinary shares of $1 each	61,360,000	61,360	61,360,000	61,360
Shares issued during the year:				
- Ordinary shares of $1 each	8,837,000	8,837	-	-
Balance carried forward	**166,244,813**	**233,242**	**157,407,813**	**224,405**

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

Dividends declared as payable in 2016 totalled $nil (2015: $8.7m).

22. Other creditors including taxation and social security

	2016	2015
	$'000	$'000
Corporation tax	2,567	4,088
Deferred tax liability	16,345	-
Other creditors	267	723
Amounts owed to group companies	29,071	22,219
	48,250	27,030

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

Deferred tax liability/(asset)	2016	2015
	$'000	$'000
At 1 January – deferred tax asset	(73)	(214)
Changes in accelerated capital allowances	190	67
Deferred taxation of release of Equalisation provision	15,236	-
Short-term timing differences	992	74
At 31 December - deferred tax liability/(asset)	16,345	(73)

The deferred tax liability/(asset) consist of the following amounts:

	2016	2015
	$'000	$'000
Accelerated capital allowances	158	(32)
Short-term timing differences	951	(41)
Deferred taxation for release of Equalisation provision	15,236	-
Deferred tax liability/(asset)	16,345	(73)

23. Capital commitments

There were no capital commitments contracted for but not provided for at 31 December 2016 (2015: $nil).

24. Ultimate parent company and controlling party

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

25. Subsequent events

On 27 February 2017, the Lord Chancellor reduced the Ogden rate from 2.5% to -0.75%. The Ogden rate represents the discount rate used to discount future compensation payments net of inflation to ensure claimants are adequately compensated for future inflation. This rate is the discount rate that is applied for lump sum awards in the UK for bodily injury claims. Reducing the Ogden rate results in the present value of lump sum awards being higher and therefore increases the cost for insurers.

The Company's management conducted an analysis and has determined that effect of this change on these financial statements is immaterial.