HCC International
Insurance Company PLC

TOKIO MARINE
HCC

Annual Report and Financial Statements

Year ended 31 December 2017

2017

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Annual Report and Financial Statements

Year ended 31 December 2017

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Directors

S A Button

B J Cook (Chief Executive Officer)

T J G Hervy

N I Hutton-Penman

H Ishii (non-executive)

K L Letsinger

N C Marsh (non-executive Chairman)

H-D Rohlf (non-executive)

C Scarr (non-executive)

G R A White (appointed 21 December 2017)

Company Secretary

D R Feldman

J L Holliday

N J Walklett

Registered Number

1575839

Registered Office

1 Aldgate, London EC3N 1RE

Independent Auditors

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

Strategic Report

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

Principal Activities

The principal activity of the Company is the transaction of general insurance and reinsurance business in the United Kingdom and Continental Europe where it benefits from the European Union Freedom of Services charter to write across the European Union member states.

HCCII's ultimate parent company is Tokio Marine Holdings, Inc. ('TMHD') whose head office is located in Tokyo, Japan. TMHD is a leading international insurance group with offices worldwide. As of 31 December 2017, TMHD had total assets of ¥23.3 trillion (December 2016: ¥22.1 trillion) and shareholders' equity of ¥3.9 trillion (December 2016: ¥3.4 trillion). TMHD's major insurance companies have a financial strength rating of A+ (Stable) from Standard & Poor's Financial Services LLC.

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

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

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

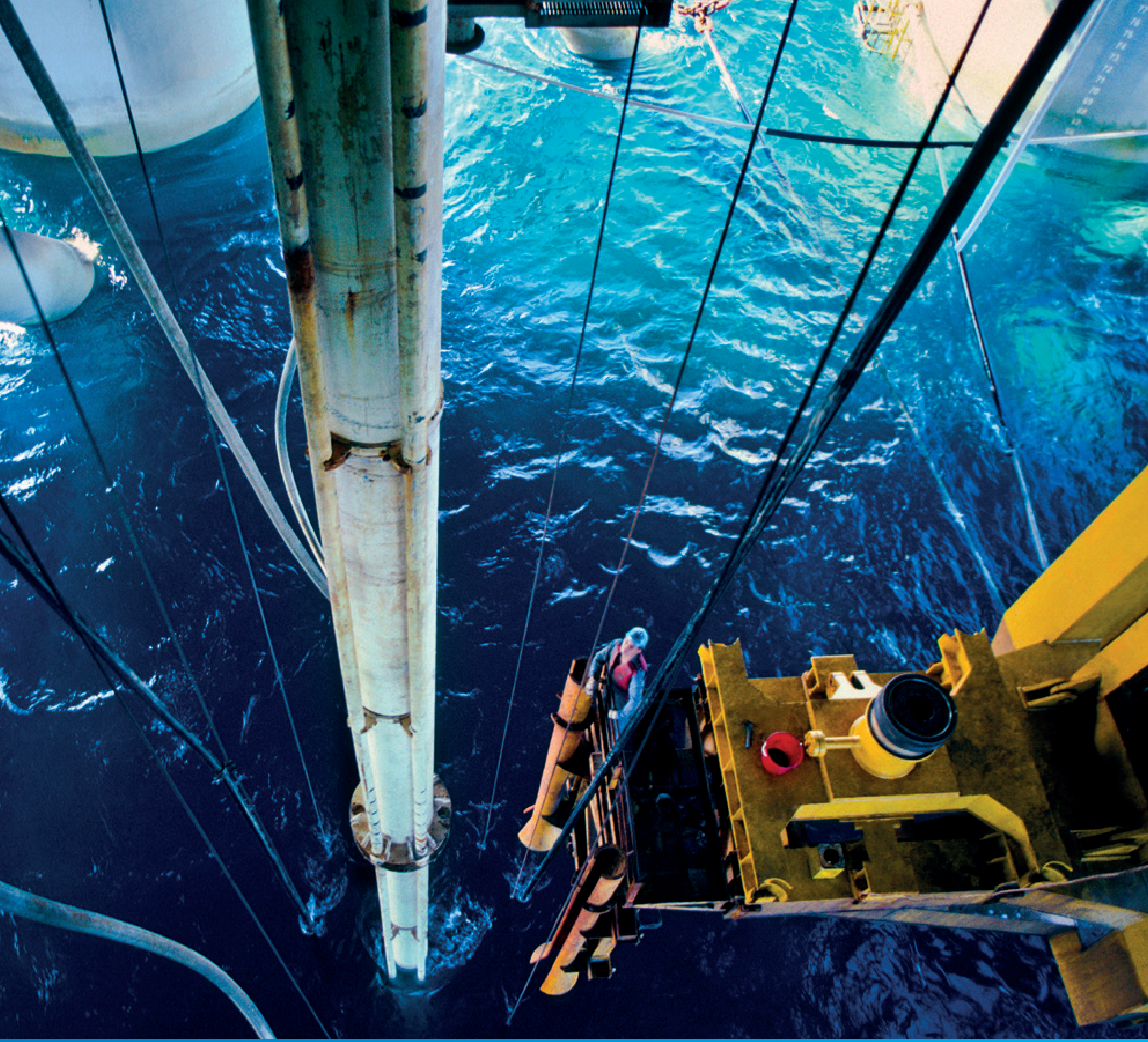
Strategy and Market Conditions

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

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

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

The United Kingdom voted to leave the European Union on 23 June 2016 and the subsequent triggering of Article 50 on 29 March 2017 presents the Company with the risk that it may no longer be licensed to write European risks currently underwritten through its European branches and in the London Market from 29 March 2019. Consequently, the Company has established a new European subsidiary based in Luxembourg, Tokio Marine Europe. S.A. (TME) and is currently awaiting authorisation from the Luxembourg insurance regulator. The Company anticipates successful completion of this and establishment of TME European branches by mid-2018 which will enable TME to begin underwriting in the second half of 2018.



TME will also establish a UK branch for underwriting of European risks which may continue to be underwritten in the London Market after the UK exit from the EU. In addition to establishment of TME and its European branches, HCCII is undertaking the legal process (Part VII transfer) to transfer insurance and reinsurance contracts for which the Company is on risk or has unpaid claims as at 1 January 2019 from its current European branch network to the new TME branch network. It is anticipated that TME will also benefit from an S&P rating of AA-. Based on the above, the directors believe that the risks presented by the exit of the UK from the European Union are mitigated.

Financial ratings

S&P

AA-

(Very Strong)

Fitch

AA-

(Very Strong)

A.M. Best

A++

(Superior)

Results and Performance

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

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

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

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

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

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

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

Gross Premiums Written

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

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

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

Speciality

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

Professional Risks gross premiums written has increased 11.4% to $124.8m (2016: $112.0m), 15.8% after adjusting for foreign currency. The business includes Professional Indemnity and Liability business where organic growth through product development, new business initiatives and increased regional presence have continued year-on-year. The Professional Indemnity business is high volume, low premium business underwritten through regional brokers with a focus on client service, the target clients being smaller, lower risk businesses. The Liability business comprises niche products covering lower risk trades and is made up of single risk and select affinity business.

Credit & Political Risk gross premiums written has increased 25.3% to $99.5m (2016: $79.4m), 27.9% after adjusting for foreign currency. The UK whole turnover Credit business where high service standards position the Company well with clients, has historically experienced good retention levels and this remains high. The Excess Credit and Political Risk business has maintained its market position with continued benefit from the Company's financial rating. The 2017 premium growth was similar in each of the two main business lines.

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

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

London Market

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

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

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

Investment Performance

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

New England Asset Management was the investment manager for the US Dollar, Sterling, Euro and Swiss Franc funds throughout the year. The funds consist primarily of a portfolio of highly rated Corporate Bonds, which are BBB rated and above, including Bonds guaranteed by the US, UK and German governments. The average duration of the aggregate portfolios at the year-end was 3.81 years (2016: 4.01 years). Equity shares which represented $77.0m or 6.9% of the total portfolio at December 2016 were sold during Q1 2017 as part of a change in investment strategy.

Balance Sheet

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

Future Outlook

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

Dividends

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

On behalf of the board

B J Cook
Chief Executive Officer

1 Aldgate
London EC3N 1RE

27 March 2018

Directors' Report

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

Directors

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

S A Button

B J Cook (Chief Executive Officer)

T J G Hervy

N I Hutton-Penman

H Ishii (non-executive)

K L Letsinger

N C Marsh (non-executive Chairman)

H-D Rohlf (non-executive)

C Scarr (non-executive)

G R A White (appointed 21 December 2017)

Matters Disclosed in the Strategic Report

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

Independent Auditors

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

Directors' and Officers' Liability Insurance

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

Principal Risks and Uncertainties

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

Going Concern

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

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

Post Balance Sheet Events

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

Statement of Directors' Responsibilities in Respect of the Financial Statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland', and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

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

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

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

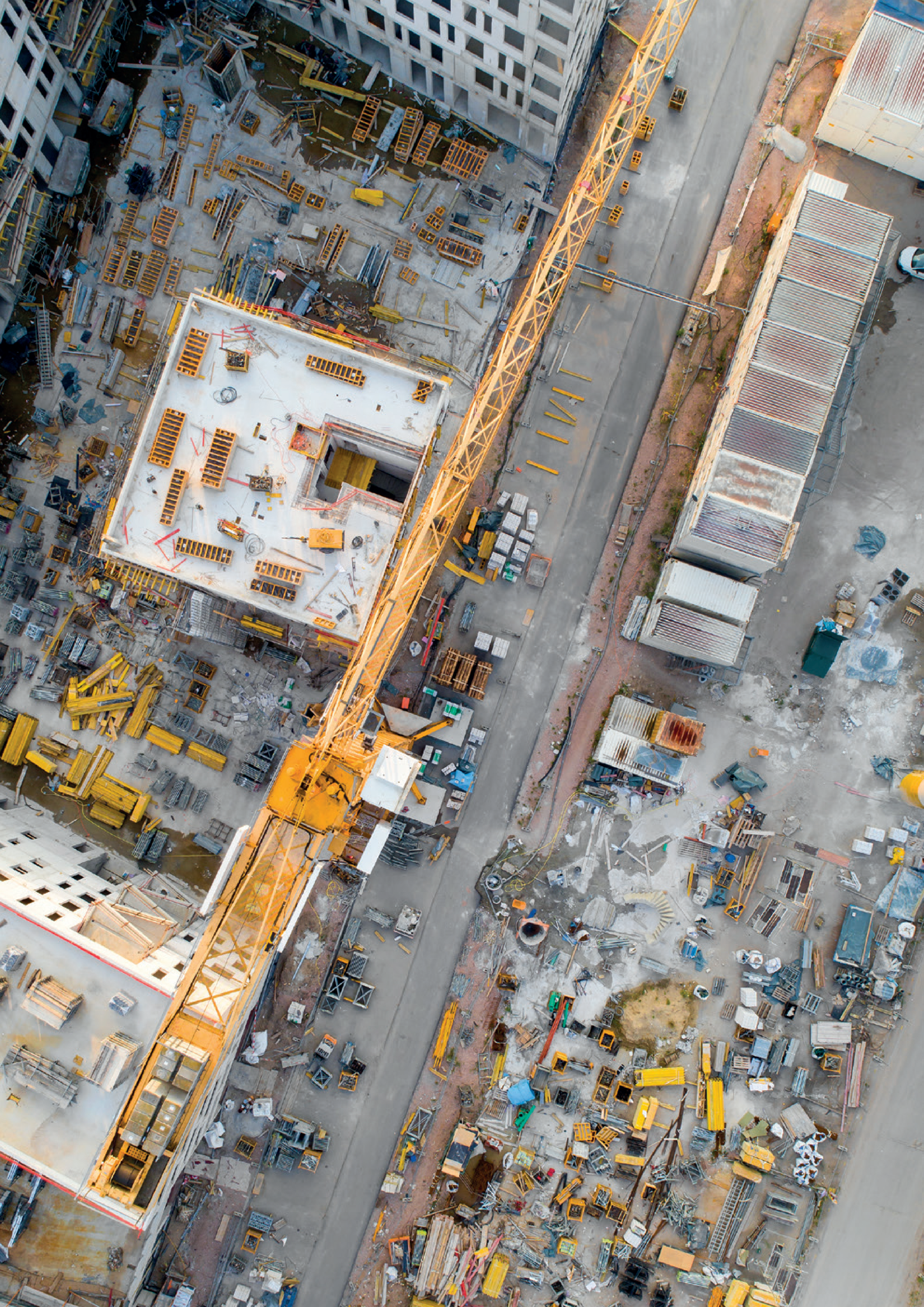
- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's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

On behalf of the board

B J Cook
Chief Executive Officer

1 Aldgate
London EC3N 1RE

27 March 2018



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

Report on the Audit of the Financial Statements

Opinion

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

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

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

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

Basis for opinion

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

Independence

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

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

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

Our Audit Approach

Overview

- Overall materiality for the Company: $4.6 million, which represents the amount it would take to increase the Combined Operating Ratio ('COR') by 1%.
- The Company's operations comprise its UK operations and a number of European branches (together 'the Company's operations'). We performed full scope procedures over the Company's UK insurance operations which had the most significant impact on the financial statements of the Company.
- We identified certain other operations where account balances were significant by virtue of materiality in size or audit risk. These balances were scoped into our audit through specified audit procedures.
- Our risk assessment identified the valuation of claims incurred but not reported ('IBNR') reserves within claims outstanding, and the associated reinsurers' share of claims IBNR reserves as a key audit matter.

The scope of our audit

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

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

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

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

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

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
Valuation of claims incurred but not reported ('IBNR') reserves and the associated reinsurers' share of claims IBNR reserves Claims IBNR reserves and the associated reinsurers' share of claims IBNR reserves are a subset of 'Claims outstanding' within technical provisions, and they represent significant accounting estimates in the financial statements. As at 31 December 2017, the value of claims IBNR reserves and the associated reinsurers' share of reserves is $433 million and $154 million respectively as set out in Note 21. These estimates are included within gross claims outstanding of $785 million and the reinsurers' share of claims outstanding of $290 million respectively as set out in Note 21. The methodologies and assumptions used by the directors to estimate claims IBNR reserves and the associated reinsurers' share of claims IBNR reserves involves a significant degree of judgement. **Key areas of focus this year were:** • The underlying volatility attached to estimates for the larger classes of business, such as Financial Lines and Liability classes, where small changes in assumptions can lead to large changes in the level of the estimate held and the reported COR. • The risk of inappropriate assumptions used in determining current year estimates for the Company. Given that limited data is available for some classes of business, there is greater reliance on expert judgement in their estimation. • The consistency of the directors' approach to estimating claims IBNR reserves, the associated reinsurers' share of claims IBNR reserves and adjustments recognised to reflect uncertainty for specific claims.	We have understood, evaluated and tested the design and operational effectiveness of relevant controls in place in respect of the valuation of claims IBNR reserves and the associated reinsurer's share of claims IBNR reserves, which included controls over the reconciliation of data from the underlying systems and the review and approval of the claims IBNR reserves and the associated reinsurers' share of claims IBNR reserves included within claims outstanding. On a sample basis we have agreed the underlying source data back to supporting documentation. In performing our detailed audit work over the valuation of claims IBNR reserves and the associated reinsurer's share of claims IBNR reserves we used actuarial specialists. Our procedures included: • developing independent point estimates for classes of business considered to be higher risk, particularly focusing on the largest and most uncertain estimates, as at 31 August 2017 and performing roll-forward testing to 31 December 2017. For these classes, we compared our re-projected estimates to those booked by the directors to form part of our determination as to whether the overall estimate of claims IBNR reserves represented a reasonable estimate; • testing, for certain other classes of business, the methodology and assumptions used by the directors to derive the claims IBNR reserve estimates and assessing whether these produced reasonable estimates based on underlying facts and circumstances; • performing analytical audit procedures over the remaining classes of business to ascertain the reasonableness of the booked claims IBNR reserves; and • applying gross to net ratios against the estimated claims IBNR reserves to calculate the estimated reinsurers' share of claims IBNR reserves. Based on the work performed we found that the claims IBNR reserves and the associated reinsurers' share of claims IBNR reserves were supported by the evidence we obtained.

How we tailored the audit scope

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

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

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

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

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

Materiality

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

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

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

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

Conclusions relating to going concern

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

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

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

Reporting on Other Information

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

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

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

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

Strategic Report and Directors' Report

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

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

Responsibilities for the Financial Statements and the Audit

Responsibilities of the directors for the financial statements

As explained more fully in the statement of directors' responsibilities in respect of the financial statements set out on page 11, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

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

Other Required Reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Appointment

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

Paul Pannell (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors
London

27 March 2018

Profit and Loss Account

For the year ended 31 December 2017

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

All results derive from continuing operations.

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

Statement of Other Comprehensive Income

For the year ended 31 December 2017

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

Balance Sheet

As at 31 December 2017

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

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

The financial statements on pages 18 to 48 were approved by the Board of Directors and were signed on its behalf by

K L Letsinger
Director
27 March 2018

Company registration number 1575839

Statement of Changes in Shareholders' Equity

As at 31 December 2017

Capital and reserves	Called up share capital $'000	Revaluation reserve $'000	Profit and loss account $'000	Total shareholders' equity $'000
At 1 January 2017	233,242	8,208	385,521	626,971
Profit for the financial year	–	–	61,304	61,304
Issued share capital	–	–	–	–
Revaluation of subsidiary undertakings	–	2,876	–	2,876
Distributions from subsidiary undertakings	–	(8,022)	–	(8,022)
At 31 December 2017	233,242	3,062	446,825	683,129

Capital and reserves	Called up share capital $'000	Revaluation reserve $'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

Notes to the Financial Statements

1. General information

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

2. Statement of compliance

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

3. Summary of significant accounting policies

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

a. Basis of preparation

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

In 2017, the Company recorded a change in estimate for earnings patterns on certain lines of Credit and Financial Lines businesses which increased the profit on ordinary activities before tax by $2.0m. This result was comprised of an increase in net earned premium of $18.3m less net incurred claims of $10.9m and net earned acquisition costs of $5.4m.

b. Going concern

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

c. Exemptions for qualifying entities under FRS 102

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

i. preparing group financial statements. The financial statements present information about the Company as an individual undertaking and not about its group, except for accounting for its investment in subsidiary undertakings at current net asset value (see Note 15);

ii. preparing a statement of cash flows;

iii. related party disclosures; and

iv. key management personnel compensation.

d. Foreign currency

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

e. Insurance contracts

i. Classification of insurance and investment contracts

The Company issues insurance contracts that transfer significant insurance risk.

ii. Insurance contracts

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

a. Premiums written

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

b. Unearned premiums

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

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

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

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

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

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

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

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

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

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

Professional Risks and Financial Lines
These claims are longer tail than those of the other classes of business described above and so a larger element of the claims provision relates to IBNR.

Claims estimates for the Company's Professional Risks and Financial Lines businesses, as with other lines, are derived initially from a combination of loss ratio based estimates followed after a period of time reflecting the longer tail by estimates based upon actual claims experience. Alternative projection methods may be employed. The initial estimate of the loss ratio is based on the experience of previous years, adjusted for factors such as premium rate changes, claims inflation and market environment. The estimate of claims inflation and anticipated market environment is particularly sensitive to the level of court awards and to the development of legal precedent on matters of contract.

Reinsurance

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

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

Unexpired risks provision

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

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

Subrogation and salvage

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

f. Equalisation provision

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

g. Exceptional items

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

h. Taxation

Taxation expense for the period comprises current and deferred tax recognised in the year. Tax is recognised in the profit and loss account, except to the extent that it relates to items recognised in other comprehensive income or equity. In this case tax is also recognised in other comprehensive income or equity, respectively.

Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the year end.

Deferred tax arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements.

Deferred tax is recognised on all timing differences at the reporting date. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the timing difference.

i. Intangible assets

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

Goodwill
The Company's goodwill arose from the purchase of a book of Professional Indemnity business from another group company in 2006 (see Note 13) and was capitalised at cost and is being amortised over its useful economic life on a straight line basis over 15 years (see Note 11). Each year the directors consider whether the carrying value of the goodwill has been impaired due to events or changes in circumstances which indicate that its value may not be recoverable.

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

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

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

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

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

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

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

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

o. Provisions and contingencies

Provisions

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

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

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

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

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

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

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

q. Financial assets

The Company classifies its financial assets into the following categories:

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

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

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

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

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

Deposits with credit institutions – loans and receivables

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

r. Impairment of financial assets

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

- significant financial difficulty of the issuer or debtor;
- a breach of contract such as a default or delinquency in payments;
- it becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
    - adverse changes in the payment status of issuers or debtors in the group; or
    - national or local economic conditions that correlate with defaults on the assets in the Company.

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

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

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

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

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

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

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

Investment return is initially recorded in the non-technical account. A transfer is made from the non-technical account to the technical account for the earned investment income and realised returns on investments supporting the insurance technical provisions and related shareholder's funds.

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

4. Critical accounting judgements and estimation uncertainty

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

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

i. The ultimate liability arising from claims made under insurance contracts
The estimate of the ultimate liability arising from claims made under insurance contracts is the Company's most critical accounting estimate. The carrying amount of the claims outstanding, net of reinsurance, is $495.3m (2016: $430.6m). There are many sources of uncertainty that need to be considered in the estimate of the liability that the Company will ultimately pay for such claims. The level of provision has been set on the basis of the information that is currently available, including potential outstanding loss advices, experience of development of similar claims, historical experience, case law and legislative and judicial actions.

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

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

If quoted prices are unavailable, observable prices for recent arm's length transactions for an identical asset are used to determine its fair value. The carrying value of these instruments is $1,200.0m (2016: $1,015.7m), see Note 5.5 for pricing basis. The Company uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period.

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

iv. Pipeline premium
The Company makes an estimate of premiums written during the year that have not yet been notified by the financial year end ('pipeline premiums') based on prior year experience and current year business volumes. The pipeline premium is booked as written and an assessment is made of the related unearned premium provision and an estimate of claims incurred but not reported in respect of the earned element. The pipeline premium included within net written premium is $68.5m (2016: $32.3m).

5. Risk management

The Company has identified the risks arising from its activities and has established policies and procedures to manage these risks in accordance with its risk appetite. The Company maintains a risk register and categorises its risks into six areas: Insurance; Strategic, Regulatory and Group; Market; Operational; Credit; and Liquidity. The sections below outline the Company's risk appetite and explain how it defines and manages each category of risk.

5.1 Insurance risk

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

ii. Reinsurance risk

Reinsurance risk arises where reinsurance contracts:

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

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

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

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

iii. Claims management risk

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

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

iv. Reserving risk

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

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

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

Gross and net development triangles of the estimate of ultimate claim cost for claims notified in a given year are presented below and give an indication of the accuracy of the Company's estimation technique for claims payments. Data has been translated using 31 December 2017 foreign exchange rates throughout the triangle.

Loss development triangles – GROSS Ultimate claims and cumulative payments	2011 $'000	2012 $'000	2013 $'000	2014 $'000	2015* $'000	2016 $'000	2017 $'000	Total $'000
	Accident year							
End of reporting year	243,029	150,170	184,373	158,396	443,343	254,217	269,462	
– one year later*	247,930	119,364	197,946	162,142	513,276	266,938		
– two years later	235,003	128,783	195,698	136,696	545,664			
– three years later	230,291	130,533	177,300	142,678				
– four years later	210,602	141,710	169,761					
– five years later	206,034	135,095						
– six years later	202,320							
Current estimate of ultimate claims	202,320	135,095	169,761	142,678	545,664	266,938	269,462	
Cumulative payments to date	(180,319)	(107,164)	(129,917)	(78,334)	(275,178)	(140,432)	(71,896)	
Liability recognised in the balance sheet	22,001	27,931	39,844	64,344	270,486	126,506	197,566	748,678
Provision in respect of previous years								36,173
Total provision included in the balance sheet								784,851

Loss development triangles – NET Ultimate claims and cumulative payments	2011 $'000	2012 $'000	2013 $'000	2014 $'000	2015* $'000	2016 $'000	2017 $'000	Total $'000
	Accident year							
End of reporting year	126,852	116,449	157,760	120,484	242,579	185,120	208,081	
– one year later*	127,950	115,644	155,085	121,459	254,131	191,284		
– two years later	116,748	103,472	144,853	101,608	260,112			
– three years later	117,508	99,176	138,610	110,095				
– four years later	112,666	95,958	137,898					
– five years later	110,496	107,170						
– six years later	108,716							
Current estimate of ultimate claims	108,716	107,170	137,898	110,095	260,112	191,284	208,081	
Cumulative payments to date	(94,919)	(83,233)	(100,691)	(67,106)	(130,028)	(106,972)	(65,705)	
Liability recognised in the balance sheet	13,797	23,937	37,207	42,989	130,084	84,312	142,376	474,702
Provision in respect of previous years								20,645
Total provision included in the balance sheet								495,347

*The increase in the 2015 accident year reserves includes a portfolio transfer arising from the merger of the company's subsidiary, HCCE, effective 1 April 2015.

5.2 Strategic, regulatory and group risk

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

i. Strategic risk

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

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

ii. Regulatory risk

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

Capital management

The Company estimates its economic capital requirements using an internal model (the Economic Capital Model ('ECM')) which, the Directors believe, is the most appropriate tool to determine the Company's medium term capital needs. However, the Company is currently outside of the PRA Internal Model Approval Process ('IMAP') and since 1 January 2016 has measured regulated capital requirement using the Standard Formula Solvency Capital Requirement ('SF SCR'). The Board has reviewed the SF SCR against the ECM and has concluded that the SF SCR is appropriate. The SF SCR is measured against the Company's Solvency II Available Assets to monitor its Solvency. Given the inherent volatility of the SF SCR and Solvency II Available Assets, the Company carries an amount in excess of the regulatory minimum. At 31 December 2017 Solvency II Available Assets are in excess of 200% of the regulatory minimum (2016 – 197%).

iii. Group risk

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

a. Contagion

Contagion risk is the risk arising from actions of one part of a group which could adversely affect any other part of the group. The Company is a member of the Tokio Marine group and therefore may be impacted by the actions of any other group company. This risk is managed by operating with clear and open lines of communication across the group to ensure all group entities are well informed and working to common goals.

b. Reputation

Reputation risk is the risk of negative publicity as a result of the Tokio Marine group's contractual arrangements, customers, products, services and other activities. The Company's preference is to minimise reputation risks, but it is not possible or beneficial to avoid them, as the benefits of being part of the group brand are significant.

The Company considers reputation risk as an impact on all risk events in the Risk Register, but not as a risk in its own right.

5.3 Market risk

Market risk arises where the value of assets and liabilities or future cash flows change as a result of fluctuations in economic variables, such as movements in foreign exchange rates, interest rates and market prices. Managing investment risk as a whole is fundamental to the operation and development of the Company's investment strategy key to the investment of Company assets.

The investment strategy is developed by reference to an investment risk budget, which is reviewed annually by the directors as part of the overall risk budgeting framework of the business. In 2017, the investment risk budget was confirmed that the amount of an investment loss, at the 1-in-200 Tail Value at Risk ('TVaR') level, would be no more than the Company's excess capital (above the regulatory minimum). This was the result of a complete investment strategy review carried out by the Company's Investment Managers, New England Asset Management Ltd as part of the Investment Committee's annual review of its risk appetite. The investment risk appetite for 2017 is consistent with 2016.

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

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

i. Foreign exchange risk
The Company's functional and reporting currency is the US Dollar and when possible the Company generally hedges currency monetary liabilities (excluding unearned premium and deferred acquisition costs) with assets in those same currencies. Excess assets are generally held in US Dollars. The effect of this on foreign exchange risk is that the Company is mainly exposed to revaluation FX gains/losses of unmatched non-US Dollar denominated positions.

The Company operates in five main currencies: US Dollars; Sterling; Canadian Dollars; Swiss Francs; and Euros. Transactions in all currencies are converted to the US Dollar functional currency on initial recognition with any balances on monetary items at the reporting date being translated at the US Dollar spot rate. The following table summarises the carrying value of total assets and total liabilities and net profit, converted to US Dollars, categorised by the Company's main currencies:

FX risk exposure 31 December 2017	AUD $ $'000	CAD $ $'000	CHF Fr $'000	EUR € $'000	GBP £ $'000	Subtotal $'000	USD $ $'000	Total $'000
Total assets	19,817	5,556	23,852	381,226	405,574	836,025	1,129,502	1,965,527
Total liabilities	(35,291)	(436)	(18,642)	(430,203)	(480,191)	(964,763)	(317,635)	(1,282,398)
Net assets	**(15,474)**	**5,120**	**5,210**	**(48,977)**	**(74,617)**	**(128,738)**	**811,867**	**683,129**
Net profit/(loss)	**(10,535)**	**3,565**	**(4,558)**	**(7,224)**	**7,333**	**(11,419)**	**72,723**	**61,304**

FX risk exposure 31 December 2016	AUD $ $'000	CAD $ $'000	CHF Fr $'000	EUR € $'000	GBP £ $'000	Subtotal $'000	USD $ $'000	Total $'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/(loss)	**(212)**	**(961)**	**6,324**	**12,780**	**(9,620)**	**8,311**	**129,787**	**138,098**

Sensitivity analysis
Fluctuations in the Company's operating currencies against US Dollars, with everything else staying the same, would result in a change to net profit after tax and net asset value. The table below gives an indication of the impact on net profit and net assets of a percentage change in the relative strength of the US Dollar against the value of the Australian Dollar, Canadian Dollar, Swiss Franc, the Euro, and Sterling, simultaneously.

FX risk exposure – sensitivity	Impact on profit after tax		Impact on net assets	
Change in exchange rate of Canadian Dollar, Australian Dollar, Euro and Sterling, relative to US Dollar	**2017 $'000**	**2016 $'000**	**2017 $'000**	**2016 $'000**
US Dollar weakens 30% against other currencies	2,775	(1,995)	(38,621)	(32,789)
US Dollar weakens 20% against other currencies	1,850	(1,330)	(25,748)	(21,860)
US Dollar weakens 10% against other currencies	925	(665)	(12,874)	(10,930)
US Dollar strengthens 10% against other currencies	(925)	665	12,874	10,930
US Dollar strengthens 20% against other currencies	(1,850)	1,330	25,748	21,860
US Dollar strengthens 30% against other currencies	(2,775)	1,995	38,621	32,789

ii. **Interest rate risk**

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

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

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

The following table shows the average duration at the reporting date of the financial instruments that are exposed to movements in market interest rates. Duration is a commonly used measure of volatility and the Company believes this gives a better indication than maturity of the likely sensitivity of the Company's investment portfolio to changes in interest rates. The 2016 comparative data has been restated to reflect the underlying assets.

Investments and cash – duration 31 December 2017	<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
Variable yield securities	28,550	–	–	–	–	–	–	28,550
Debt securities	237,567	127,286	132,656	250,965	184,825	70,106	197,802	1,201,207
Equity securities	–	–	–	–	–	–	–	–
Total other financial investments	**266,117**	**127,286**	**132,656**	**250,965**	**184,825**	**70,106**	**197,802**	**1,229,757**
Deposits from third parties	56,356	–	–	–	–	–	–	56,356
Cash at bank	52,602	–	–	–	–	–	–	52,602
Total	**375,075**	**127,286**	**132,656**	**250,965**	**184,825**	**70,106**	**197,802**	**1,338,715**

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
Variable yield securities	32,520	–	–	–	–	–	–	32,520
Debt securities	164,798	120,337	119,892	218,625	122,675	76,603	177,743	1,000,673
Equity securities	77,005	–	–	–	–	–	–	77,005
Total other financial investments	**274,323**	**120,337**	**119,892**	**218,625**	**122,675**	**76,603**	**177,743**	**1,110,198**
Deposits from third parties	57,812	–	–	–	–	–	–	57,812
Cash at bank	61,941	–	–	–	–	–	–	61,941
Total	**404,576**	**120,337**	**119,892**	**218,625**	**122,675**	**76,603**	**177,743**	**1,229,951**

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)	**2017 $'000**	**2016 $'000**	**2017 $'000**	**2016 $'000**
100 basis point increase	(34,966)	(29,833)	(34,966)	(29,833)
50 basis point increase	(17,483)	(14,916)	(17,483)	(14,916)
50 basis point decrease	16,747	14,758	16,747	14,758
100 basis point decrease	33,495	29,517	33,495	29,517

5.4 Operational risk

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

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

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

Addressing conduct risk has always been treated as a priority irrespective of the regulatory emphasis on the selling of financial products, including insurance products, to consumers. The Company's primary objective is that all policyholders should receive fair treatment throughout the product lifecycle, which requires the effective management of conduct risk. However, conduct risk is not limited to the fair treatment of customers and the Company's Conduct Risk Policy broadly defines conduct risk as '…the risk that detriment is caused to the company, our customers, clients or counterparties because of the inappropriate execution of our business activities.'

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

5.5 Credit risk

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

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

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

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

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

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

The Company has developed processes to formally examine all reinsurers before entering into new business arrangements. New reinsurers are approved by the reinsurance approval group, which also reviews arrangements with all existing reinsurers at least annually. Vulnerable or slow-paying reinsurers are examined more frequently. To assist in the understanding of credit risks, A.M. Best, Moody's and Standard & Poor's ('S&P') ratings are used. The Company's concentrations of credit risk have been categorised by these ratings in the following table. The 2016 comparative data has been restated to reflect the underlying assets.

Investments and cash – credit ratings 31 December 2017	**AAA $'000**	**AA $'000**	**A $'000**	**BBB $'000**	**BB $'000**	**Total $'000**
Variable yield securities	28,550	–	–	–	–	28,550
Debt securities	104,505	594,652	340,879	149,752	11,419	1,201,207
Equity securities	–	–	–	–	–	–
Total other financial investments	**133,055**	**594,652**	**340,879**	**149,752**	**11,419**	**1,229,757**
Cash at bank	52,602	–	–	–	–	52,602
Total	**185,657**	**594,652**	**340,879**	**149,752**	**11,419**	**1,282,359**

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	95,408	476,642	292,611	125,857	10,155	1,000,673
Equity securities	77,005	–	–	–	–	77,005
Total other financial investments	**204,933**	**476,642**	**292,611**	**125,857**	**10,155**	**1,110,198**
Cash at bank	61,941	–	–	–	–	61,941
Total	**266,874**	**476,642**	**292,611**	**125,857**	**10,155**	**1,172,139**

The Company's largest counterparty exposure is $275.9m of US Government securities (2016: $222.4m restated). Insurance receivables and other receivable balances held by the Company have not been impaired based on available evidence and no impairment provision has been recognised in respect of these assets.

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

Financial assets – ageing 31 December 2017	Not yet due $'000	Up to 3 months past due $'000	3 to 6 months past due $'000	7 to 12 months past due $'000	> 1 year past due $'000	Total $'000
Reinsurers share of claims outstanding	289,504	–	–	–	–	289,504
Insurance debtors	84,021	7,490	8,745	6,886	–	107,142
Reinsurance debtors	41,590	3,708	4,329	3,408	–	53,035
Other debtors	26,081	–	–	–	–	26,081
Total	**441,196**	**11,198**	**13,074**	**10,294**	**–**	**475,762**

Financial assets – ageing 31 December 2016	Not yet due $'000	Up to 3 months past due $'000	3 to 6 months past due $'000	7 to 12 months past due $'000	> 1 year past due $'000	Total $'000
Reinsurers share of claims outstanding	281,675	–	–	–	–	281,675
Insurance debtors	81,161	9,289	5,002	2,486	–	97,938
Reinsurance debtors	37,859	4,333	2,333	1,160	–	45,685
Other debtors	28,104	–	–	–	–	28,104
Total	**428,799**	**13,622**	**7,335**	**3,646**	**–**	**453,402**

Fair value estimation

The following table presents the Company's financial investments measured at fair value at 31 December 2017 and 31 December 2016 categorised into levels 1, 2 and 3, reflecting the categorisation criteria specified in FRS 102 (s34.22).

No liabilities were measured at fair value at 31 December 2017 or 31 December 2016. The 2016 comparative data has been restated to reflect the underlying assets.

Financial investments – pricing basis 31 December 2017	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Variable yield securities	–	28,550	–	28,550
Debt securities	1,189	1,200,018	–	1,201,207
Equity securities	–	–	–	–
Total other financial investments	**1,189**	**1,228,568**	**–**	**1,229,757**

Financial investments – pricing basis 31 December 2016	Level 1 $'000	Level 2 $'000	Level 3 $'000	Restated Total $'000
Variable yield securities	–	32,520	–	32,520
Debt securities	17,505	983,168	–	1,000,673
Equity securities	77,005	–	–	77,005
Total other financial investments	**94,510**	**1,015,688**	**–**	**1,110,198**

FRS 102 defines the disclosure of investment levels as follows:

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

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

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

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

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

1) evaluation of the underlying methodologies;

2) analysis of recent sales activity;

3) analytical review of the Company's fair values against current market prices; and

4) comparison of the pricing services' fair value to other pricing services' fair value for the same investment.

No markets for the Company's investments were judged to be inactive at period end. Based on these procedures, the Company did not adjust the prices or quotes provided by its independent pricing services, third party investment managers as of 31 December 2017 or 31 December 2016.

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

The Company has no Level 3 securities.

5.6 Liquidity risk

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

The Company's approach is to manage its liquidity position so that it can reasonably survive a significant individual or market loss event (details of the Company's management of its exposure to loss scenarios are provided in Note 5.1.(i). This means that the Company maintains sufficient liquid assets, or assets that can be readily converted into liquid assets at short notice, to meet expected cash flow requirements. The Company can also draw on group funds to bridge short-term cash flow requirements.

The following table is an analysis of the net contractual cash flows based on all the liabilities held at 31 December 2017 and 2016:

Financial liabilities – projected cash flows 31 December 2017	Within 1yr $'000	1–3 years $'000	3–5 years $'000	>5 years $'000	Total $'000
Net claims outstanding	140,910	164,233	90,804	99,399	495,346
Creditors from direct insurance operations	11,313	–	–	–	11,313
Creditors from reinsurance operations	52,773	–	–	–	52,773
Other creditors	35,834	–	–	–	35,834
Total	**240,830**	**164,233**	**90,804**	**99,399**	**595,266**

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**

The next two tables summarise the carrying amount at the reporting date of financial instruments analysed by maturity date. The 2016 comparative data has been restated to reflect the underlying assets.

Investments and cash – maturity 31 December 2017	Within 1yr $'000	1–3 years $'000	3–5 years $'000	>5 years $'000	Total $'000
Variable yield securities	28,550	–	–	–	28,550
Debt securities	112,561	215,988	221,695	650,963	1,201,207
Equity securities	–	–	–	–	–
Total other financial investments	**141,111**	**215,988**	**221,695**	**650,963**	**1,229,757**
Cash at bank	52,602	–	–	–	52,602
Total	**193,713**	**215,988**	**221,695**	**650,963**	**1,282,359**

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	110,720	207,280	160,279	522,394	1,000,673
Equity securities	77,005	–	–	–	77,005
Total other financial investments	220,245	207,280	160,279	522,394	1,110,198
Cash at bank	61,941	–	–	–	61,941
Total	**282,186**	**207,280**	**160,279**	**522,394**	**1,172,139**

6. Segmental information

(a) Underwriting result by class of business

2017	Gross premiums written $'000	Gross premiums earned $'000	Gross claims incurred $'000	Gross operating expenses $'000	Reinsurance balance $'000	Net underwriting result $'000
Direct insurance						
Accident and health	11,055	11,373	3,124	5,055	(1,977)	1,217
Credit, political risk and suretyship	170,939	162,325	90,828	55,241	1,834	18,090
Travel	20,430	22,316	20,897	10,950	(299)	(9,830)
Marine, aviation and transport	21,793	22,500	2,936	7,199	(13,590)	(1,225)
Miscellaneous	10,775	10,027	12,799	4,487	10,105	2,846
Third party liability	211,373	219,958	108,046	86,898	(5,827)	19,187
Total direct	446,365	448,499	238,630	169,830	(9,754)	30,285
Reinsurance acceptances	116,743	113,746	19,571	35,511	(25,125)	33,539
Total	563,108	562,245	258,201	205,341	(34,879)	63,824
Investment return						32,305
Equalisation provision						–
Technical account						96,129

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

The reinsurance balance represents the (charge)/credit to the technical account from the aggregate of all items relating to reinsurance outwards.

(b) Geographical location of underwriting operations

	Gross premiums written		Profit before taxation		Net assets	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000	2017 $'000	2016 $'000
United Kingdom	437,997	421,916	49,663	176,995	678,784	615,431
Rest of Europe	125,111	126,714	27,603	(34)	4,345	11,540
	563,108	548,630	77,266	176,961	683,129	626,971

(c) Geographical location of gross premiums written by destination

	2017 $'000	2016 $'000
United Kingdom	277,583	286,791
Rest of Europe	175,584	159,310
Rest of the World	109,941	102,529
	563,108	548,630

7. Investment return

	2017 $'000	2016 $'000
Investment income:		
Income from other financial investments at fair value through profit or loss	26,490	24,269
Bank interest receivable and similar income	146	(30)
Investment property rental income	–	8
Distributions from subsidiary undertakings	8,022	–
Gains on the realisation of financial investments at fair value through profit or loss excluding FX from revaluation	10,926	3,631
	45,584	27,878
Investment expenses and charges:		
Investment management fees and charges	(1,474)	(1,692)
Losses on the realisation of financial investments at fair value through profit or loss excluding FX from revaluation	(3,637)	(2,051)
	(5,111)	(3,743)
Net unrealised gains (losses) on investments:		
Unrealised gains on financial investments at fair value through profit or loss excluding FX from revaluation	9,935	8,659
Unrealised losses on financial investments at fair value through profit or loss excluding FX from revaluation	(10,392)	(2,237)
	(457)	6,422
Total investment return	40,016	30,557

	2017 $'000	2016 $'000
Allocation of investment return:		
Earned investment income allocated to the general business technical account	32,305	24,157
Investment return allocated to the non-technical account	7,711	6,400
Total Investment return	40,016	30,557

The Company recorded $28.6m net foreign exchange gains in revaluation of the non-US Dollar investment portfolio (2016: $25.1m losses). Additionally foreign exchange losses on revaluation of other non-USD Dollar monetary assets and liabilities totalled $48.7m (2016: $30.2m gains).

8. Net operating expenses

	2017 $'000	2016 $'000
Commission costs	125,719	136,165
Change in deferred acquisition costs (Note 21)	3,270	(132)
Reinsurance commissions and profit participation	(17,486)	(18,357)
Earned net acquisition costs	111,503	117,676
Administrative expenses	76,352	84,772
	187,855	202,448

Total commission written during the year in respect of direct insurance was $89.4m (2016: $99.4m).

9. Staff costs

All staff are employed by HCC Service Company Inc. (UK branch), a fellow Tokio Marine HCC group subsidiary. The disclosures for staff costs below relate to underwriting and other direct staff only. The costs of staff providing central services to HCC International entities are allocated and recharged to the Company as a management fee. This staff information is not included in salary costs and average staff numbers as it is not practical to allocate them to the underlying entities to which the staff provides services.

	2017 $'000	2016 $'000
Wages and salaries	24,555	25,332
Social security costs	3,280	2,936
Other pension costs	1,520	1,419
	29,355	29,687

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

	2017 Number	2016 Number
Underwriting	129	115
Claims	16	9
Administration and finance	38	29
	183	153

Directors' emoluments

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

	2017 $'000	2016 $'000
Aggregate emoluments	4,363	4,478
Pension contributions	11	45
	4,374	4,523

Pension benefits are accruing to one director (2016: four) under the Group's defined contribution pension scheme.

Highest paid director	2017 $'000	2016 $'000
Aggregate emoluments	1,492	1,631
Pension contributions	–	–
	1,492	1,631

10. Auditors' remuneration

The total remuneration payable by the Company, excluding VAT, to its auditors PricewaterhouseCoopers LLP, in respect of the audit of the Company and its subsidiary undertakings is detailed below:

	2017 $'000	2016 $'000
Fees payable for the audit of the Company's financial statements	319	391
Fees payable for audit-related assurance services	189	322
Tax compliance services	–	19
Tax advisory services	–	7
	508	739

Audit fees are paid by HCC Service Company Inc. (UK branch) and recharged as appropriate to the Company.

11. Other charges

	Note	2017 $'000	2016 $'000
Corporate oversight costs		3,361	3,180
Continental Europe Office closure costs		–	3,157
Service awards		1,990	1,664
Amortisation of goodwill	13	1,159	1,545
		6,510	9,546

12. Tax on profit on ordinary activities

	2017 $'000	2016 $'000
UK Corporation tax at 19.25% (2016: 20.00%)		
Current tax on income for the year	21,057	22,566
Tax payments in respect of prior years	645	(121)
Current tax charge for the year	21,702	22,445
Deferred tax – origination and reversal of timing differences	(5,740)	16,418
Tax on profit on ordinary activities	15,962	38,863

The tax assessed for the year is higher (2016: higher) than the standard rate of corporation tax in the UK. The differences are explained below:

	2017 $'000	2016 $'000
Profit on ordinary activities before taxation	77,266	176,961
Tax on profit on ordinary activities at standard rate of 19.25% (2016: 20.00%)	14,873	35,392
Expenses not deductible for tax purposes	381	337
Amortisation of goodwill	223	386
Foreign tax	741	–
Effect of foreign exchange	2,840	2,397
Dividend from subsidiary	(1,544)	–
Tax payments in respect of prior years	645	(121)
Deferred tax in respect of prior years	(2,131)	–
Other	(66)	472
Tax on profit on ordinary activities	15,962	38,863

The calculation of deferred tax balances at the year-end takes into account the reduction in the UK main corporation tax rate from 20% to 19.0% that became effective from 1 April 2017 and the further reduction to 17.0% that will be effective from 1 April 2020. The disclosure of 2016 numbers has been restated in line with 2017.

13. Goodwill

	2017 $'000	2016 $'000
Cost		
At 1 January	23,176	23,176
At 31 December	23,176	23,176
Accumulated amortisation		
At 1 January	15,451	13,906
Amortisation charge for the year	1,159	1,545
At 31 December	16,610	15,451
Net book value		
At 31 December	6,566	7,725

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

14. Land and buildings

	2017 $'000	2016 $'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 (j).

15. Investment in subsidiary undertakings

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

	2017 $'000	2016 $'000
At 1 January	8,208	7,501
Distributions received from subsidiary undertakings	(8,022)	–
Revaluation of subsidiary undertakings	2,147	2,058
Foreign exchange impact on translation to closing rate	728	(1,351)
At 31 December	3,061	8,208

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

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

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

All subsidiary companies are directly held and are incorporated in England and Wales unless otherwise stated above. The registered office for HCCI Credit Services Limited is The Grange, Rearsby. Leicester LE7 4FY and the registered office for HCC Diversificación y Soluciones S.L. is Calle Josep Pla, 2 – Piso 10, 08019 Barcelona, España.

16. Other financial investments

	Fair value or amortised		Book cost	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Variable yield securities and units in unit trusts	28,550	32,520	28,550	32,520
Debt securities and other fixed-income securities	1,201,207	1,000,673	1,199,325	1,038,013
Equity shares	–	77,005	–	74,228
	1,229,757	1,110,198	1,227,875	1,144,761

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

17. Other debtors

	2017 $'000	2016 $'000
Other debtors	20,257	17,210
Amounts owed by group companies	5,824	10,894
	26,081	28,104

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

18. Tangible assets

	Owner occupied leasehold improvements $'000	Owner occupied land and buildings $'000	Computer equipment $'000	Fixtures, fittings and office equipment $'000	Total $'000
Book cost					
At 1 January 2017	1,466	3,572	19	1,830	6,887
Additions	–	248	–	50	298
At 31 December 2016	1,466	3,820	19	1,880	7,185
Accumulated depreciation					
At 1 January 2017	1,466	900	19	1,818	4,203
Charge for the year	–	62	–	4	66
At 31 December 2017	1,466	962	19	1,822	4,269
Net book value					
31 December 2017	–	2,858	–	58	2,916
31 December 2016	–	2,672	–	12	2,684

Land and buildings is occupied by the Company for its own use and is being depreciated over 50 years through June 2045.

19. Called up share capital

Allotted, called up and fully paid Ordinary Shares	2017 Number of Shares	2017 $'000	2016 Number of Shares	2016 $'000
Balance brought forward:				
– Ordinary shares of £1 each	96,047,813	163,045	96,047,813	163,045
– Ordinary shares of $1 each	70,197,000	70,197	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	**166,244,813**	233,242

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

Dividends declared as payable in 2017 totalled $nil (2016: $nil).

20. Other creditors including taxation and social security

	2017 $'000	2016 $'000
Corporation tax	7,736	2,567
Deferred tax liability	10,605	16,345
Other creditors	296	267
Amounts owed to group companies	17,197	29,071
	35,834	48,250

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

Deferred tax liability/(asset)	2017 $'000	2016 $'000
At 1 January – deferred tax liability/(asset)	16,345	(73)
Changes in accelerated capital allowances	253	190
Deferred taxation of release of Equalisation provision	(3,609)	15,236
Technical reserves	(1,765)	–
Short-term timing differences	(686)	992
Change in UK corporation tax rate	67	–
At 31 December – deferred tax liability	10,605	16,345

The deferred tax liability consists of the following amounts:

	2017 $'000	2016 $'000
Accelerated capital allowances	411	158
Technical reserves	(1,765)	–
Short-term timing differences	332	951
Deferred taxation for release of Equalisation provision	11,627	15,236
Deferred tax liability	10,605	16,345

21. Technical provisions

	Provisions for unearned premiums	Claims outstanding – reported claims	Claims outstanding – incurred but not reported claims	Claims outstanding – total	Deferred acquisition costs (1)	Net technical liabilities
Gross of reinsurance						
At 1 January 2017	281,353	347,405	364,909	712,314	73,148	920,519
Exchange adjustments	24,020	23,113	40,131	63,244	5,193	82,071
Claims paid in year	–	(248,908)	–	(248,908)	–	(248,908)
Movement in provision	863	230,539	27,662	258,201	(3,270)	262,334
At 31 December 2017	306,236	352,149	432,702	784,851	75,071	1,016,016
Reinsurance						
At 1 January 2017	51,385	142,815	138,860	281,675	11,216	321,844
Exchange adjustments	7,373	3,923	18,083	22,006	869	28,510
Reinsurance recoveries in the year	–	(68,741)	–	(68,741)	–	(68,741)
Movement in provision	(4,147)	57,433	(2,869)	54,564	(2,151)	52,568
At 31 December 2017	54,611	135,430	154,074	289,504	9,934	334,181
Net						
At 31 December 2017	**251,625**	**216,719**	**278,628**	**495,347**	**65,137**	**681,835**
At 31 December 2016	**229,968**	**204,590**	**226,049**	**430,639**	**61,932**	**598,675**

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

Claims handling costs have been reclassified in the profit and loss account from the change in the provision for claims – gross amount to the claims paid – gross amount, to reflect the nature of the transaction appropriately.

22. Capital commitments

There were no capital commitments contracted for but not provided for at 31 December 2017 (2016: $nil).

23. Ultimate parent company and controlling party

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

The company's immediate parent company is Pepys Holdings Limited which is incorporated in and has a head office in London, UK.

24. Post balance sheet events

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

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To Be a **Good Company**