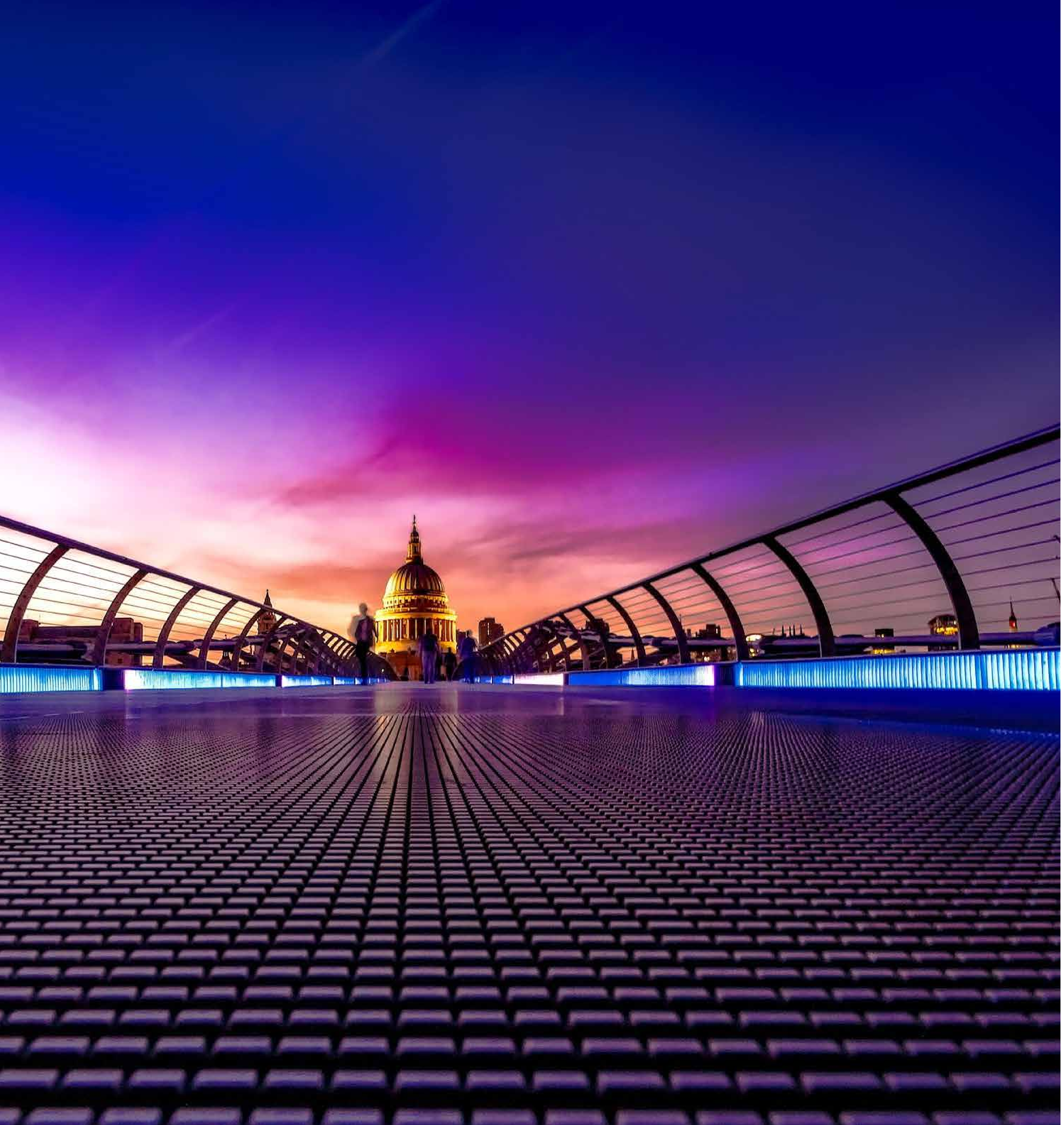
HCC International
Insurance Company plc

TOKIO MARINE
HCC

Annual Report and consolidated financial statements

Year ended 31 December 2020

tmhcc.com



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Business structure

HCC International Insurance Company plc (HCCII), a UK Insurance Company, and its subsidiaries (the Group) is part of the Tokio Marine Group (the TM Group), whose ultimate holding company is Tokio Marine Holdings, Inc. The TM Group is a leading international insurance group located in Tokyo, Japan that has 252 subsidiaries and 22 affiliates located worldwide, which undertake non-life and life insurance and operate within the financial and general business sector (including consulting and real estate).

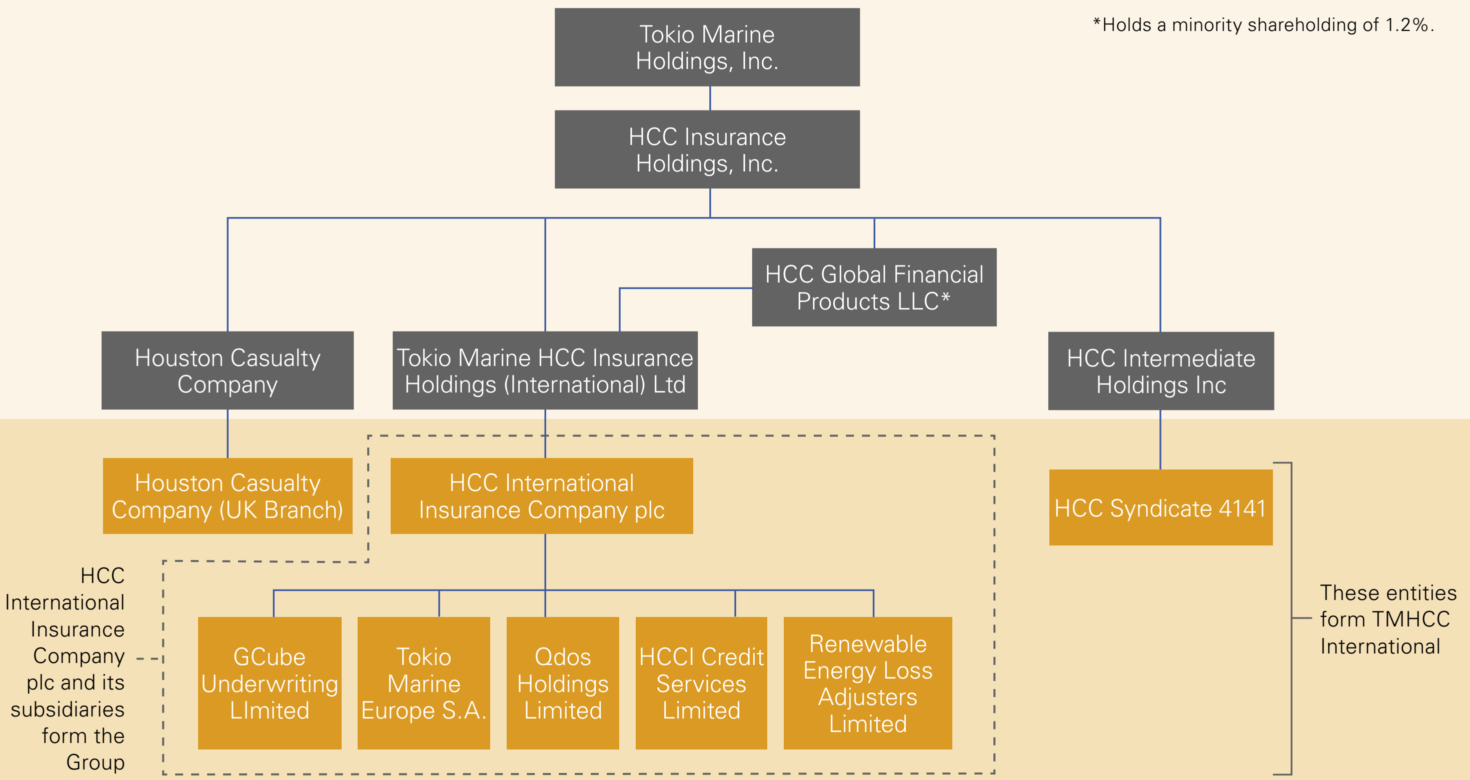
As of 31 December 2020, the TM Group had total assets of ¥25.6 trillion (December 2019: ¥24.4 trillion) and shareholders' equity of ¥1.9 trillion (December 2019: ¥1.9 trillion). The TM Group and a number of its major insurance companies have a financial strength rating of A+ (Stable) from Standard & Poor's Financial Services LLC (S&P).

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

TMHCC International, which had Gross Written Premiums (GWP) of $1.506bn in 2020 (2019: $1.245bn), is the TMHCC Group's operating segment outside of the US. Located in the United Kingdom (UK) and Europe, TMHCC International (illustrated by the structure chart below) underwrites business on four different insurance platforms: HCCII, its wholly owned subsidiary, Tokio Marine Europe S.A. ((TME), which is a Luxembourg insurance company), HCC Syndicate 4141 (a wholly aligned Lloyd's syndicate) and Houston Casualty Company (London Branch). The platform used is based on prescribed rules and client choice if licensing permits.

At 31 December 2020, the Group's subsidiaries are:

- TME;
- Qdos Holdings Limited (QHL), a UK underwriting agency and its wholly owned subsidiary, Qdos Broker and Underwriting Services Limited (QBuS), which distributes Professional Indemnity (PI), Employers and Public Liability (EL & PL) and Tax Enquiry and Liability (TEL) insurance to the UK small contractor market via Qdos Shop, an online digital distribution platform;
- HCCI Credit Services Limited (Credit Services). Credit Services provides data and information services and procurement of other services integral to the underwriting of several products within the Specialty business;
- GCube Underwriting Limited (GCube);and
- Renewable Energy Loss Adjusters Limited (RELA).



Information as at 1 April 2021. This simplified structure chart shows ownership information for the principal operating entities within TMHCC International.

Additional information on GCube and RELA is set out under the Acquisitions section below.

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

During 2020, the Group conducted business through HCCII's principal offices in London, its regional offices across the UK, and its branch in Switzerland. The Group's European business was underwritten by TME through its branches in Spain, Ireland, France, Germany, Italy, Denmark, Belgium, Norway and the Netherlands. European risks presented in the London Market have, since 1 January 2019, been underwritten through TME's branch in the UK. Following the UK's exit from the European Union on 31 January 2020 and the end of the transition period on 31 December 2020, any European Economic Area (EEA) risks previously written by the UK branch will be written by TME's EEA branches from 1 January 2021, utilising the expertise of the specialist underwriters in the UK through the TME UK branch.

The results of the Group are included within these consolidated financial statements for the years ended 31 December 2020 and 2019.

Geographical footprint

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

* 2 offices   ** 4 offices

Strategic Report

Strategic initiatives

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

Acquisitions

On 29 May 2020, the Group completed the acquisition of GCube (an underwriting agency which is one of the largest global underwriters of renewable energy, covering wind, solar, bio, hydro, wave and tidal projects) and its sister company RELA. RELA provides loss adjusting services to insurers of large renewable energy projects. The acquisition demonstrates the Group's commitment to the renewable energy insurance market and its desire to actively address the issues around sustainability, helping us move towards a safe, secure and sustainable future. The strategic acquisition of GCube complements the business currently written by the Group, and as an underwriting class within London Market from 1 January 2021, GCube will be underwriting 100% of the business on TMHCC International platforms, replacing the facility previously in place. This investment in the renewables sector will provide further opportunities for growth and further diversification throughout the TM Group.

Other growth

UK Japanese (J) Business

From 1 January 2020 the Group began underwriting Japanese business, which had historically been underwritten by an affiliate. The employees responsible for the Japanese accounts transferred to HCC Service Company, Inc (UK Branch) on 1 January 2020.

Delegated Property

During Q4 2019, the Group hired market-leading underwriters in order to build its Delegated Property team and expand its niche Property product offerings. Writing insurance products for residential and SME commercial properties across the UK and Europe, the Delegated Property team commenced underwriting from 1 January 2020.

Marine Cargo

In late 2020 the Group took the strategic decision to develop its Marine product offerings and hired a leading Marine Cargo underwriting team, which will build the Marine Cargo business. The business written by the Marine Cargo account brings some aggregation with other Marine classes already written by the Group, but is largely a diversifier within the wider insurance and reinsurance business and the approach of the Marine Cargo underwriters provides diversity within the portfolio.

Operational

Senior management changes

During 2020, TMHCC International continued to strengthen its operational functions, building on the changes made to its Senior Management Team during 2019, by adding new and strengthening existing roles that report to the Executive Directors. The key changes were the creation of several new Senior Management positions: Chief People Officer, Chief Operations Officer and Chief Actuary, the latter being a combined role previously held by the Chief Risk Officer. The Group also appointed a new Chief Information Officer who is focused on reviewing, defining and articulating the Group's technology strategy. These additional roles provide further support to the Executive team, strengthen the Group's medium to long-term succession planning for key roles, and ensure continued delivery of the Group's strategic objectives and operating model, while maintaining a flat management structure and operational flexibility. The Group will continue to focus on hiring the right talent and developing leadership skills consistent with the growth of the business.

Resilience during Covid-19

The Covid-19 pandemic has been an unprecedented challenge for everyone. Throughout 2020, the Group continued to operate effectively within the varying lockdown restrictions in the UK and across Continental Europe, successfully supporting its customers, brokers and employees through these challenging and uncertain times.

The health, safety and wellbeing of its employees has been a priority for the Group during the pandemic. To enable its employees to work safely and securely in a remote working environment, the Group ensured that: it has robust IT infrastructure; its employees have access to appropriate IT and office equipment; and it has supported the physical and mental wellbeing of its employees. The Group's Return to Office policy, initially implemented in late 2020, is flexible and encompasses the strategy to enable employees to safely return to the office when local restrictions allow.

Throughout the pandemic, employees received regular communications from the CEO providing updates on how the Group continued to operate and support its customers during the pandemic. In addition, employees were provided with regular communications and resources to support their wellbeing following the transition to new ways of working due to the pandemic. More details on the wellbeing initiatives undertaken during the year is set out in the People section on pages 26 to 27.

Despite the challenging environment, the Group performed strongly during 2020, demonstrating the resilience of its business model and its strategy to have a diversified portfolio of non-correlating business, supported by its financial strength, strong stakeholder relationships and open and supportive culture.

Strategic Report

Strategy

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

The Group's strategy has been consistent for many years, but the Group's priorities vary with the insurance cycle and changes in the economic environment.

Strategic objectives

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

The Group has consistently delivered its strategic plan because of its **key strengths**

Diversified portfolio of specialty business

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

Financial security

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

Skilled and entrepreneurial management

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

Prudent risk management

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

Operational efficiency

The TMHCC International segment manages portfolios by line of business on a single integrated operating model. This provides operational efficiencies across the TMHCC International segment which benefits the Group.

Business model

Purpose

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

Generating value

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

Financial capital

The Group has a strong balance sheet; its capital is well in excess of regulatory requirements, and HCCII and TME both have a financial strength rating of A+ from S&P. This rating is equivalent to the rating of the Group's ultimate parent company, the TM Group, as S&P views the TMHCC Group to be core to the TM Group. The Group's financial performance (detailed in the Business performance section on pages 17 to 22) consistently generates value for its shareholders.

Employees and intellectual capital

The Group recognises that throughout all areas of the business it needs to attract and retain highly skilled, disciplined and experienced individuals of exceptional quality who thrive in a constantly changing environment. This gives us the foundation to empower our people to be at the forefront of providing specialty insurance solutions that consider the fast-changing impacts of climate change, technological disruption and other issues that may adversely affect our clients. The actions taken by the Group to manage, sustain and develop its employees are detailed in the People section on pages 26 to 27.

Stakeholders

Strong stakeholder relationships are important, including clients, distribution network, shareholder, regulators and suppliers. The Group's relationships with its stakeholders are vital to its ongoing success. The actions it takes in respect of those stakeholder relationships are detailed on pages 13 to 16.

Technology

The Group has technology solutions that generate value throughout its business. These include catastrophe modelling and aggregation tools; e-distribution portals for our products; capital modelling tools; policy and claims administration; and IT security software to increase its IT resilience. These solutions provide increased operational efficiencies that benefit the Group's employees, distribution network and customers.

Business model

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

Face risk with confidence

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

UNDERWRITING AND MANAGING RISK

Disciplined underwriting, careful risk selection and reinsurance purchasing

RESERVES

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

INVESTMENT

Preserve and grow shareholders' equity through conservative investment

CLAIMS MANAGEMENT

Treating customers fairly, timely processing and settling of claims

PROVIDING CLIENTS WITH PRODUCTS THROUGH THE DISTRIBUTION NETWORK

Through our distribution network

Face risk with confidence

The Group's core business is underwriting speciality lines of insurance. The Group has three core underwriting divisions: International Specialty; London Market; and European Property & Casualty (P&C). More details on these underwriting divisions are provided on page 17.

The Group writes London Market, International Specialty and European P&C products in the UK from HCCII's London and regional offices; in Europe through TME's European branches; and across the rest of the EEA via Freedom of Services authorisations. HCCII accepts global inwards reinsurance risks where its licences permit. Business written by the Group is principally commercial lines, with de-minimis personal lines business written by the London Market and Specialty divisions.

UNDERWRITING AND MANAGING RISK

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

RESERVES

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

INVESTMENT

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

CLAIMS MANAGEMENT

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

PROVIDING CLIENTS WITH PRODUCTS THROUGH THE DISTRIBUTION NETWORK

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

Products

Stakeholder engagement and s172 statement

The Board makes decisions to ensure long-term success for the benefit of the Group and its stakeholders. The Board acknowledges that strong relationships with its key stakeholders (employees, shareholders, clients, brokers, and regulators) and its responsibilities to its communities and the environment, are vital to its ongoing success. The Group adopted The Wates Corporate Governance Principles for Large Private Companies and the Board has set out how it has applied those principles to make decisions for the long-term success of the Group and its stakeholders in the Corporate Governance Report on pages 39 to 50.

The Board ensures that it considers the impact of strategic and operational decisions on the Group's stakeholders and discharges its s172 responsibilities through a combination of the following:

- standing agenda points and papers presented at each Board meeting;
- a rolling agenda of matters to be considered by the Board throughout the year, which includes consideration of the Strategic Business Plan, supported by a three-year budget;
- regularly scheduled Board presentations and reports that include areas that are important to the Group's stakeholders - for example, Modern Slavery statement and updates on climate change/ sustainability;
- formal consideration of the s172 factors that are relevant to any major decisions taken by the Board including acquisitions and new/exited lines of business;
- consideration and discussion of areas relevant to stakeholders through the risk management framework and governance structure via standing agenda items at meetings of the Board's Committees and sub-committees/groups.

How the Group engages with its stakeholders

Why we engage	How we engage	Examples of Actions taken in 2020	Examples of Stakeholder Outcomes	Find out more
Employees				
The Group employs experienced, diverse and dedicated employees who are a key asset to the business and are fundamental to its long-term success. A key element of the TM Group's Good Company ethos is to *Empower Our People*. Therefore, it is important that the Group continues to engage with and provide development opportunities for employees.	The Group has a number of established engagement mechanisms in place for employees: • communications from the CEO; • 1:1 meetings with managers; • performance management system; • Workplace Group meetings; • Culture and Values Survey; • Wellbeing Survey; and • town halls and results presentations. The Board receives updates from the Chief People Officer relating to diversity and inclusion, learning and development, employee wellbeing, and corporate culture and values.	Launch of the new performance management tool. Formal launch of the Workplace Group, with three rotating employee representatives. Development of the Workplace Strategy. Appointment of a Learning & Development Manager and defining the Learning & Development Strategy. During 2020, the Group undertook a Wellbeing Survey to gain additional insights and feedback from employees on their experiences of working remotely and how the Covid-19 pandemic has affected their wellbeing. Launch of wellbeing initiatives.	The TMHCC Group undertakes an annual Culture and Values Survey and the response rate to the 2020 Survey was 80%. The overall results continue to improve and the areas that scored highly were: *Group Attachment, Culture, Look Beyond Profit, and Compliance.* The Workplace Group met four times during 2020 and discussed improvement suggestions relating to ways of working and the Group's Workplace Strategy.	Business structure pages 4 to 7 Business model pages 9 to 12 People pages 26 to 27 Non-financial KPIs page 32 Business conduct and ethics pages 28 to 29

Strategic Report

Why we engage	How we engage	Examples of Actions taken in 2020	Examples of Stakeholder Outcomes	Find out more
Clients and brokers				
The Group's continued strong performance would not be possible without understanding our clients' needs and providing them with the right solutions through the distribution network , enabling them to take on risks and opportunity with confidence. The International Specialty, London Market and European P&C products underwritten by the Group are distributed to its clients through established broker (wholesale, regional and specialty) relationships.	The Group understands the importance of building long-term relationships with its clients and taking the time to understand its client's individual requirements. During the year, the Group engaged with its clients and brokers through: • Business Development team; • Claims team; • Compliance team; • direct conversations; and • marketing activities including social media.	The Group commenced underwriting its Delegated Property line in 2020, which provides insurance products for residential an commercial properties. Increased resources within the Claims and Compliance teams to support the new lines of business and growth in the existing business.	Increased product offerings, including new product offerings from Delegated Property and Japanese Business. Online portals for London Market and Specialty business.	Business structure pages 4 to 7 Business model pages 9 to 12 Business performance pages 17 to 22
Shareholders				
The Board continues to align the Group's strategic objectives to its purpose and to shareholders' long-term objectives in order to produce consistent and sustainable results that increase shareholder value.	The Group has an ongoing dialogue and regular engagement with its immediate shareholder HCC Insurance Holdings, Inc. and its ultimate parent company Tokio Marine Holdings, Inc. through: • quarterly results presentations; • 1:1 meetings; • Annual Report and financial statements; • the TM Group Corporate Liaison Officer (who works within the Group); • Kiichiro Hatakeyama TM Group representative, who is appointed to the Group's Board and provides an additional method of communication between the Board and its ultimate shareholder.	The CEO and Executive team have regular dialogue with the Group's shareholder - both immediate and ultimate.	The Group's Board ensures that in all of its decision making it considers the long-term consequences of its actions, and is acting in good faith and for the benefit of its shareholders.	Business structure pages 4 to 7 Business model pages 9 to 12

Why we engage	How we engage	Examples of Actions taken in 2020	Examples of Stakeholder Outcomes	Find out more
External partners				
The Group's relationships with its reinsurers continues to be central to its business model and management of risk. The Group works with a number of key suppliers and third parties. The Group is authorised by the Prudential Regulatory Authority (PRA) and regulated by the Financial Conduct Authority (FCA) in the UK, and it is authorised by the Commissariat aux Assurances (CAA) in Luxembourg.	The Group has an ongoing dialogue with its reinsurers, key suppliers and third parties. The Board receives updates on the Group's reinsurance and third-party arrangements. The Group maintains an open and transparent dialogue with its regulators that is facilitated through the Compliance Department. The Executive and Non-Executive Directors have ongoing engagement with the Group's regulators, including requests to discuss specific matters.	The CEO and CUO's provide regular updates on the renewal of the Group's reinsurance purchasing. Regulatory communications and discussions are reported to and discussed by the Board.	The Group monitors, through its Emerging and Developing Risk framework, matters that may have a strategic impact on the industry and the Group's business. The Group monitors regulatory announcements and developments and these are reported to the Board for discussion. Due diligence and third-party frameworks and procedures outline the Group's expectations for responsible and ethical business.	Business model pages 9 to 12 Business conduct and ethics pages 28 to 29 Principal risks and uncertainties 34 to 38
Environment				
The Group continues to investigate and identify environmental and climate related risks and opportunities within its business and develop its sustainability strategy.	• Increased use of video and teleconferencing to reduce travel. • Communications from the Sustainability Committee. • ClimateWise membership. • Meetings relating to the Climate Risk Project, established in part to respond to the PRA's expectations set out in Supervisory Statement 3/19 regarding management of financial risks from climate change. • The Board receives updates from the Sustainability Committee on its initiatives and on the Climate Risk Project.	• Acquisition of GCube and RELA. • Transferred utility contracts to renewable energy providers. • Commenced the Climate Risk Project. • First reported against the ClimateWise Principles (aligned to the Task Force on Climate-related Financial disclosures (TCFD)). • Third party verification of carbon emissions to support Streamlined Energy & Carbon Reporting (SECR) reporting.	Ongoing improvements relating to recycling and energy usage. Increased awareness and understanding of environmental initiatives among employees.	Business model pages 9 to 12 Good Company approach page 23 Climate related disclosures pages 30 to 31

Strategic Report

Why we engage	How we engage	Examples of Actions taken in 2020	Examples of Stakeholder Outcomes	Find out more
Charity and community				
A core component of the TM Group's Good Company ethos is *Look Beyond Profit*, acting with integrity for the benefit of society. The Group is committed to supporting the communities in which we operate.	The Group engages with its local communities through: • its charity partnerships; • employee volunteering; • charity ambassadors; • fundraising events. The Group's charitable and community activities are communicated to the Board via the Sustainability Committee.	The Group's charitable contributions increased by 19% in 2020.	Our charity partners benefit from consistent financial support and volunteering activities and increased visibility.	Business model pages 9 to 12 Charity and community pages 24 to 25

Principal decisions of the Board 2020

The decisions highlighted below are examples of the principal decisions made by the Board during 2020 that considered the impact of strategic and operational decisions on the Group's stakeholders.

Proposed acquisition (GCube and RELA)

In January 2020, the Board considered the proposed acquisition of GCube and its sister company RELA. GCube is a specialist renewable energy underwriter, which has 25 years of experience supporting renewables developers and asset owners. The proposal was that the GCube business would complement the Group's existing Energy business and enable it to expand its renewable energy offering. The Board considered the acquisition in the context of the impact on the Group's stakeholders, including employees and external partners, and also discussed whether the transaction was in the best commercial interests of the Group's shareholders as a whole. The Board concluded that the value creation of the Group's business from the acquisition would benefit its shareholders and stakeholders in the long term as the Group expands its presence in the renewable energy market, growing its overall business. As a result, the Board concluded that it was in the best interests of the Group to proceed with the acquisition.

Proposed new business line

In September 2020, the Board received a proposal to establish a new Marine Cargo underwriting line of business within the London Market division, to develop the Group's Marine product offering. The Board noted that the proposal was consistent with the Group's strategy to grow its business through the establishment of new lines of business and to have a diversified portfolio of business. The Board approved the proposal and agreed that the new line of business would benefit its customers and brokers through increased products and would create long-term value for the Group, which would in turn create value for all stakeholders.

Business performance and position

Underwriting Divisions

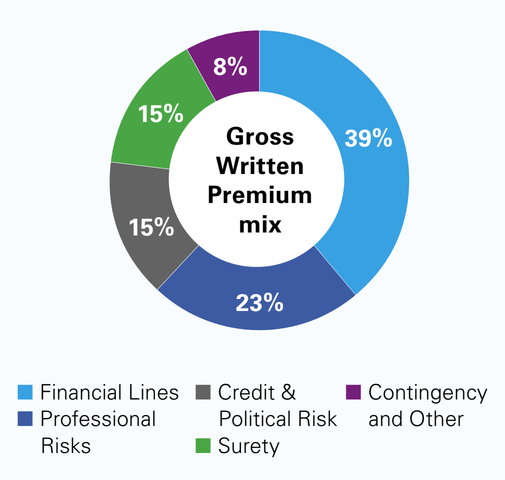
INTERNATIONAL SPECIALTY

The International Specialty lines of business are comprised of:

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

Gross Written Premium **$697.2m (2019: $642.5m)**

Underwriting result **$81.2m (2019: $46.5m)**



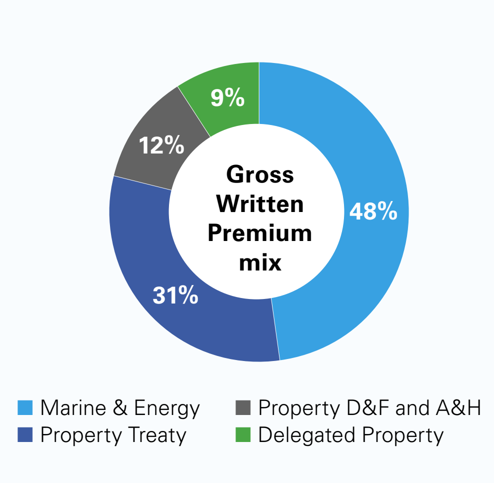
LONDON MARKET

The London Market division includes the following lines of business:

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

Gross Written Premium **$314.6m (2019: $214.6m)**

Underwriting result **$39.6m (2019: $44.6m)**



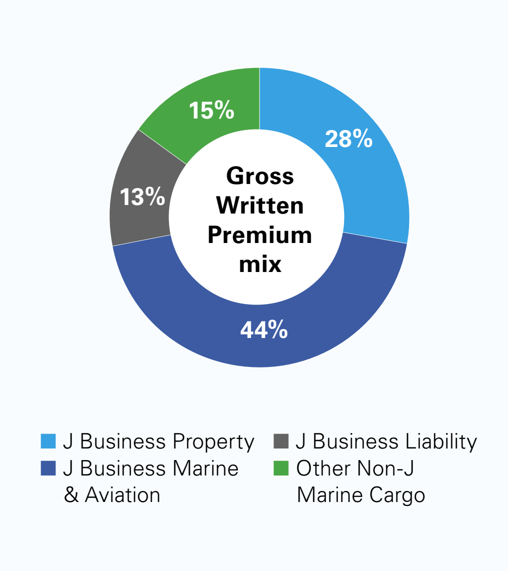
EUROPEAN P&C

The European P&C division consists of Japanese Business (J Business), which is the commercial insurance coverage provided to Japanese corporate clients in respect of their overseas business interests; and Other Non-Japanese Business (Non-J Business).

- J Business:
  - Property;
  - Marine & Aviation; and
  - Liability.
- Other Non-J Marine Cargo Business.

Gross Written Premium **$183.6m (2019: $161.5m)**

Underwriting result **$3.3m (2019: $4.9m)**



Financial Key Performance Indicators (KPIs)

Gross Written Premiums

2019: $1,018.6m
2020: **$1,195.4m**
Increase of $176.8m

Net Premiums Written

Net of reinsurance.

2019: $619.0m
2020: **$778.2m**
Increase of $159.2m

Underwriting result

Balance on technical account (before investment income).

2019: $96.0m
2020: **$124.1m**
Increase of $28.1m

Net loss ratio

Ratio of net incurred claims to net earned premiums.

2019: 49%
2020: 46.3%

Net combined ratio

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

2019: 83.6%
2020: 82.4%

Investment income

Earned investment income transferred from the Non-Technical Account.

2020: **$26.3m**
2019: $28.1m

Cash and investments

Excluding investment in subsidiaries and land and buildings.

2020: **$1,804.7m**
2019: $1,521.0m

Consolidated shareholders' funds

2020: **$1,005.4m**
2019: $861.3m
Increase of $144.1m

Results and performance

The Group continued to grow in 2020 with Gross Written Premium (GWP) reaching $1.2 billion, up by $206.9m or 20.9% in 2020, excluding the impact of the Part VII adjustment in 2019. This increase was the result of organic growth from strong market conditions across the underwriting divisions, particularly in Specialty ($54.7m) and London Market ($100.0m). The increase in Specialty was due to strong performance in Financial Lines ($49.4m) and Professional Risks ($19.0m). The increase in London Market was primarily driven by growth in Marine & Energy ($44.9m) as well as new initiatives, such as Delegated Property ($26.8m), with European P&C benefitting from the addition of the UK J Business ($13.0m).

The Group made a net profit before tax for the financial year 2020 of $176.9m (2019: $141.3m) of which $150.4m (2019: $124.1m) was from the technical account for general business, which included investment income of $26.3m (2019: $28.1m).

The underwriting result on the technical account excluding investment income was $124.1m (2019: $96.0m), showing a combined ratio of 82.4% (2019: 83.6%), with strong profits from both the London Market and Specialty divisions.

The Group's growth was across all divisions. The Specialty division (2020 technical result $81.2m; 2019: $46.5m) continued organic growth and good rating conditions, particularly in Financial Lines and Professional Risks. UK Trade Credit and Surety saw modest premium increases as a result of the impact of Covid-19 on economic activity. The impact of this on the bottom line was more than offset by significantly improved loss experience from the 2019 re-underwriting of the UK Credit portfolio, which reduced exposures particularly in the retail sector. 2020 Surety losses were substantially less severe compared to 2019. The Contingency line of business has been impacted by Covid-19, with a dampening effect on the top line from reduced economic activity and the losses in the event cancellation business, for which incurred net losses of ($12.0m) have been recorded. Total prior accident year reserve strengthening totalled $10.8m (2019: $4.5m).

In the London Market division (2020 technical result $39.6m; 2019: $44.6m) an improved ratings environment and other market conditions have seen the division exceed expectations. This growth stems from new initiatives combined with the Group's ability to quickly offer capacity in dislocated markets. The Group did not have significant exposure to 2020 large catastrophes, nor was it impacted by the deterioration of prior year events. In contrast to other market experience, Covid-19 losses were inconsequential given policy wordings and exclusions. Total prior accident year net reserve releases were consistent with the previous year at $5.4m (2019: $6.0m prior accident year releases).

The European P&C division contributed $3.3m (2019: $4.9m) to the technical result. Given the nature and complexity of the J Business and its importance to a larger global portfolio, the business is fully ceded within the TM Group to Tokio Marine & Nichido Fire (TMNF). The contribution to the technical result represents the ceding commission, which is set to achieve a profit for the Group and covers the acquisition and operating costs of the business.

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

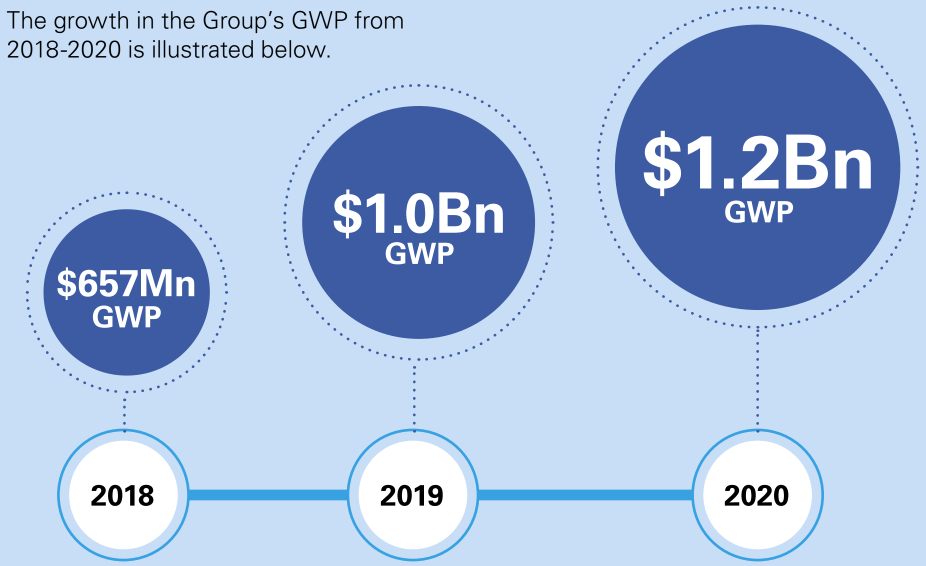
The non-technical account items increased the balance on the technical account for general business by $26.3m (2019: $28.1m) and comprise net unrealised gains on the Group's fixed-income portfolio of $49.9m (2019: $41.7m losses), which is consistent with the effect of US interest rate reductions during the year on the Group's investment portfolio, which is principally in US dollar fixed-income securities. The increase is partially offset by amortisation of goodwill and intangibles totalling $10.7m (2019: $10.3m), net foreign exchange losses $5.3m (2019: $8.1m), and other operating expenses.

Overall, the Directors are satisfied with the Group's operations and its financial position at 31 December 2020.

Gross Written Premium

2020 Gross Written Premium (GWP) increased by $206.9m to $1,195.4m (2019: $988.5m, excluding the 2019 Part VII adjustment of $30.1m). Excluding the impact of FX, the increase was $194.6m (19.4%). This was driven by a combination of the new business written by the Group in 2020, together with improved market conditions on existing business - most notably Professional Risks and Financial Lines and across the London Market classes.

The growth in the Group's GWP from 2018-2020 is illustrated below.



The foreign exchange effect on GWP is shown in the table below:

HCCII GWP analysis

	2020	2019	Increase/(decrease)		2019 GWP at 2020 rate	Increase/(decrease) excluding exchange effect	
	$'m	$'m	$'m	% change	$'m	$'m	% change
Financial Lines	270.0	220.6	49.4	22.4%	223.4	46.6	20.9%
Professional Risks	161.1	142.1	19.0	13.4%	143.6	17.5	12.2%
Credit & Political Risk	108.3	112.2	(3.9)	-3.5%	113.0	(4.7)	-4.2%
Surety	102.1	94.8	7.3	7.7%	96.2	5.9	6.1%
Contingency and Disability	51.5	67.4	(15.9)	-23.6%	68.6	(17.1)	-24.9%
Other	4.2	5.4	(1.2)	-22.2%	5.5	(1.3)	-23.6%
Total Specialty Segment	**697.2**	**642.5**	**54.7**	**8.5%**	**650.3**	**46.9**	**7.2%**
Marine & Energy	150.5	105.6	44.9	42.5%	105.9	44.6	42.1%
Property Treaty	98.1	76.4	21.7	28.4%	77.0	21.1	27.4%
Property D&F and A&H	39.2	32.6	6.6	20.2%	32.7	6.5	19.9%
Delegated Property	26.8	-	26.8	-	-	26.8	-
Total London Market	**314.6**	**214.6**	**100.0**	**46.6%**	**215.6**	**99.0**	**45.9%**
European J Business	155.6	114.4	41.2	36.0%	116.9	38.7	33.1%
European Non-J Business	28.0	47.1	19.1	-40.6%	48.1	20.1	-41.8%
Total European P&C[1]	**183.6**	**161.5**	**22.1**	**13.7%**	**165.0**	**18.6**	**11.3%**
Sub-Total	1,195.4	1,018.6	176.8	17.4%	1,030.9	164.5	16.0%
Part VII impact	-	(30.1)	30.1	-	(30.1)	30.1	-
Total	**1,195.4**	**988.5**	**206.9**	**20.9%**	**1,000.8**	**194.6**	**19.4%**

[1] The 2019 European P&C GWP excludes $30m being the value of the gross unearned premium reserve transferred from TMKI as part of the Part VII transfer.

Specialty

Financial Lines GWP increased to $270m (2019: $220.6m) with the growth driven by improved market conditions in Commercial PI, US traded D&O and Australian Financial Lines, as well as continuing growth in Cyber business. This has been partially offset by a sharp, yet temporary, decrease in Transaction Risk Insurance (TRI) business due to the effect of Covid-19 on the M&A markets activity throughout the second and third quarters of 2020. Premium volume in 2021 has returned to pre-Covid levels as M&A markets recover.

Professional Risks GWP increased to $161.1m (2019: $142.1m). The business includes two main product lines; Professional Indemnity and Liability. The growth is driven by a combination of improved market conditions in Professional Indemnity and new initiatives in Liability.

Credit & Political Risk GWP decreased marginally to $108.3m (2019: $112.2m). The Group offers a full range of Credit & Political Risk insurance solutions for both financial institutions and small and large commercial companies through its two specialist underwriting teams. The largest team focuses on UK whole turnover Credit business, where high service standards in both underwriting and claims handling positions the Group as one of the major insurers in the UK and results in high retention levels. The UK market for this business is particularly challenging given current economic uncertainties and the difficulties experienced by the UK retail sector. The 2019 actions taken to shift the underlying business mix away from retail risks in particular has to some extent reduced GWP in premium on the UK whole turnover Credit account.

Surety GWP increased to $102.1m (2019: $94.8m). The Group's position in the market, together with its strong S&P rating, provide good opportunities for Surety to sell performance bonds and other bond products, supporting large multi-national companies involved in significant infrastructure projects. Growth in the year is driven by the new European Surety underwriting team, which wrote $17.3m in 2020 ($6.0m in 2019).

Contingency & Disability GWP reduced to $51.5m (2019: $67.4m). This line of business includes $26.2m (2019: $40.1m) of the TMSL (French PA and Contingency and Bloodstock) portfolio. This was part of the European P&C division in 2019 but has been integrated into our overall Contingency & Disability portfolio in 2020. The Contingency business has been impacted by the Covid-19 pandemic due to reduced economic activity and increased loss activity in the Event Cancellation business.

Other This comprises principally Kidnap and Ransom business, which has remained broadly consistent with prior years.

London Market

Marine & Energy GWP increased to $150.5m (2019: $105.6m). The increase is driven by better rating conditions and the organic growth in Marine Liability following its establishment in 2019.

Property Treaty GWP increased to $98.1m (2019: $76.4m). The portfolio principally comprises Non-US excess of loss reinsurance business. The strategy of continuing strong client relationships and participation on high programme layers, combined with a consistent and responding reinsurance programme, has consistently produced profitable results.

Strategic Report

Property Direct & Facultative and Accident & Health GWP increased to $39.2m (2019: $32.6m). Growth in the Property Direct and Facultative account continues to be driven by rating improvements in response to the 2017 and 2018 natural catastrophes. Our A&H portfolio continues to maintain market-leading profitability due to disciplined underwriting and realistic growth expectations.

Delegated Property This was a new line of business that wrote $26.8m of premium for the Group in its first year. This business primarily consists of a niche book of predominantly UK property business written via risk attaching binders. Adding good diversification to other Property business, this will continue to grow in 2021.

European P&C

European P&C had GWP of $183.6m for 2020 (2019: $161.5m). The division consists of J Business (Property; Marine & Aviation; and Liability), which is the commercial insurance coverage provided to Japanese corporate clients in respect of their overseas business interests; and Non-Japanese Business (Non-J Business), principally Marine Cargo. The increase in premium of $22.1m in the year primarily reflects the new UK J Business portfolio ($13m), which began underwriting in 2020, and organic growth in the existing J portfolio, partially offset by a reduction of $19m due to the decision to place some of the Non-J Business into runoff from 1 January 2020.

Investment performance

New England Asset Management is the investment manager for the US Dollar, Sterling, Euro and Swiss Franc funds, which consist primarily of a portfolio of highly rated Corporate Bonds, that have an average rating of AA- and do not include any securities with less than a BBB rating. This also includes bonds guaranteed by the US, UK and German governments. The average duration of the aggregate portfolios at the year-end was 4.6 years (2019: 4.6 years). Delphi Financial Group, Inc. (Delphi), an investment manager within the TM Group, manages the alternative investment class entered into in 2019, which comprises 4% (2019: 3%) of the Group's consolidated invested assets.

Balance sheet

The balance sheet of the Group shows total assets of $3,442m (2019: $2,797m) and shareholders' equity of $1,005m (2019: $861m). Of the total assets, $1,805m, 52.4% (2019: $1,521m, 54.4%) was represented by financial investments and cash at bank. Net technical liabilities from insurance contracts were $1,178m (2019: $949m).

HCCII's regulatory solvency position is measured on a 'solo' basis, which requires the treatment of the strategic investments in TME, GCube and QHL on a Solvency II 'look through' basis, with capital requirements equal to those required for other equity investments. This results in a solvency ratio in excess of 177% at 31 December 2020 (2019: 197%). The decrease in the solvency ratio is driven by the business growth.

Good Company approach

The Group shares the TM Group's **Good Company** vision.

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

To support the Good Company approach to being a sustainable and responsible business, the Group has a sustainability governance structure that covers a wide range of Environmental, Social and Corporate Governance (ESG) issues relevant to its business and stakeholders. The Group's approach to sustainability includes the following areas of focus:

Charity and community

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

Workplace

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

Marketplace and environment

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

Business conduct and ethics

Conducting business ethically, honestly and responsibly.

Strategic Report

Charity and community

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

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

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

Community Development

Diversity & Inclusion

Health & Wellbeing

Environmental Impact

In 2020, the Group donated over $470,000
in its support of charitable groups and employee fundraising initiatives

Responding to Covid-19

The Covid-19 pandemic created additional challenges for charities, with many facing a decrease in charitable donations and increased demand for support services. In response to this, the Group recognised the need to provide additional support to charities and communities across the UK and Europe.

Brave NHS Support

In March 2020, the Group's charity partner Body & Soul launched free counselling sessions to NHS frontline workers impacted by the pandemic. 440 sessions had been delivered to frontline NHS workers by the end of 2020.

The Group donated over $40,000 to the Brave NHS Support programme, of which over $13,000 was raised by employees in the UK. The employees participated in the *'30 minutes on the 30th'* fundraising initiative held on 30 April 2020, which encouraged employees to donate and take a 30-minute wellbeing and exercise break.

Donating food

Across the UK and Europe, the Group provided over $8,000 in funds for those vulnerable in our society, including children who are eligible for free school meals and foodbanks in the UK and Europe.

Local support

Employees in the UK suggested local charities and community projects that had been adversely impacted by the pandemic, and the Group donated over $40,000 to causes including youth suicide prevention, support for victims of domestic abuse, and support for the elderly and vulnerable.

Christmas appeal

The Group launched a Christmas campaign in the UK and Europe to engage employees to fundraise and support two causes impacted by Covid-19.

UK

People living with dementia and their families are experiencing additional stress and isolation due to the pandemic. This has seen calls to Dementia UK's specialist Helpline increase substantially, with a 45% increase in December 2020 in comparison to the prior year. Employees in the UK completed a 12 Days of Christmas Challenge for Dementia UK and over $10,000 was donated, which could cover the telephone costs for over 3,000 families contacting their Helpline.

Europe

With weakened immune systems, restricted visits from family, and treatments being delayed due to Covid-19, the fight against cancer has been harder than ever. So, in a twist on the usual Dress Down Day, the Group's European offices took part in a virtual Dress Up Day in December. Staff donned their best outfits and donated over $12,000 to local organisations supporting children fighting cancer.

Highlights from our charity partners

As mentioned, the Group supports a number of charity partners in line with its charity programme and commits to supporting their causes through annual financial contributions over multiple years. Examples of how we have made a difference together in 2020 are:

Facing History and Ourselves *uses lessons of history to challenge teachers and their students to stand up to bigotry and hate.* In 2020, our support helped: develop five new teaching resources for UK classrooms, train over 400 teachers (more than double the number trained in 2019) and launch 'An Inspector Calls' teaching unit - with a reach of over 12,000 people.

The Wickers Charity *supports the young people of Hackney, London, by providing opportunities for them to develop new skills, learn from positive role models and create a brighter future.* In 2020, we supported the charity to employ two part-time employees to engage more young people; the delivery of a knife crime awareness programme; and 20 sports and activity sessions for young people.

St Mungo's: *we are proud to have been partnered with St Mungo's since 2016, supporting the No Second Night Out service that reaches people sleeping rough for the first time, helping them off the streets and into safe accommodation.* Since the early days of the pandemic in March 2020, our funds helped support 884 homeless people into longer-term accommodation.

The Wallich *is Wales' leading homelessness charity and their Bridgend Solutions Centre is located near our Bridgend branch. This vital service offers tailored advice, support and assistance for people who are homeless, as well as facilities such as showers, computers and telephones, and food and clothing.* Our donations have enabled the Centre to upgrade their shower facilities, which are used by around ten visitors a day.

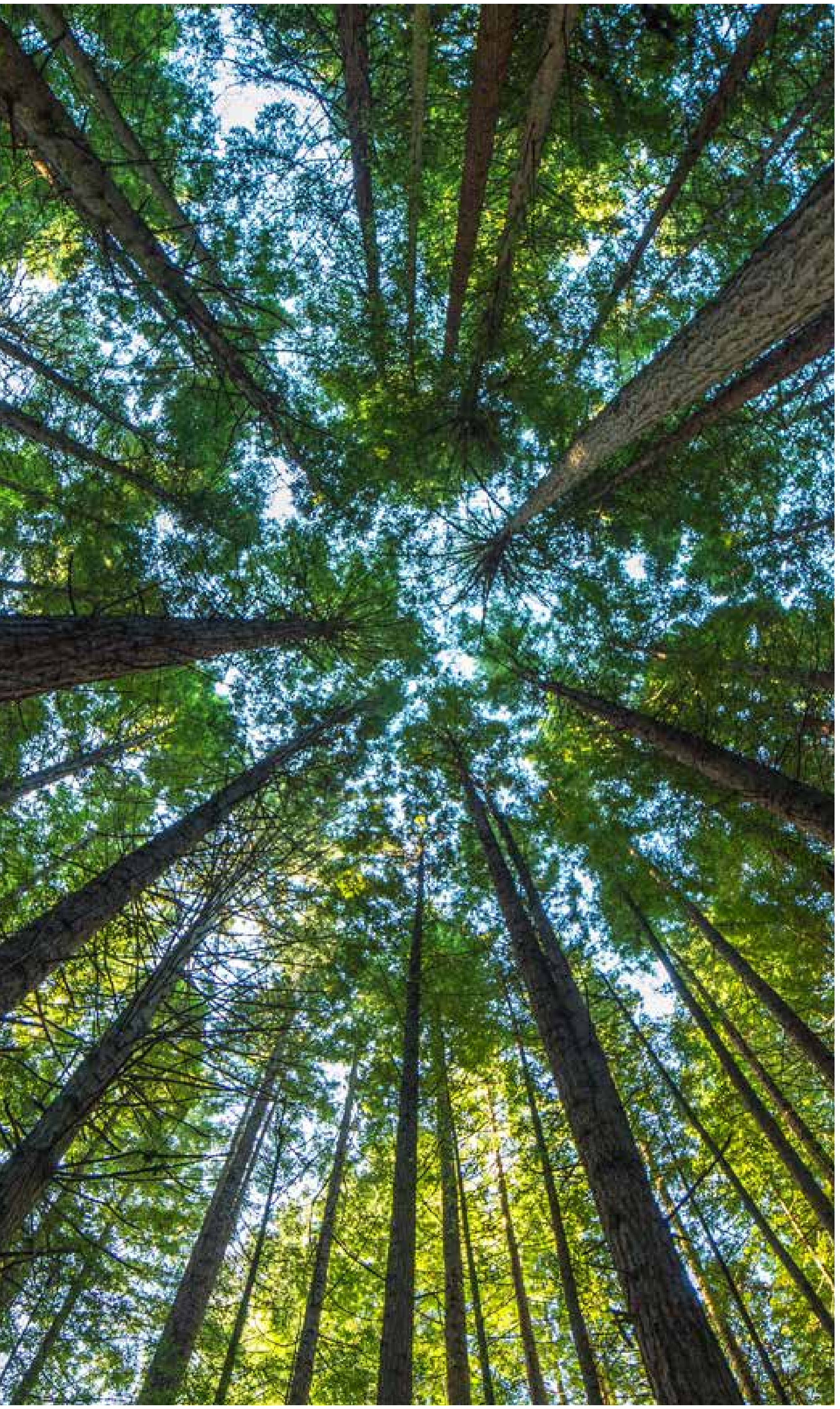
Lamp *provides free community mental health advocacy and carers advocacy for people living in Leicester, Leicestershire and Rutland.* They are local to our Leicester office and our donation in 2020 has helped their Advocates and Carers Group cope with the high volume of calls during the pandemic, ensuring people can gain access to the mental health support they need.

Nexe Fundació *is based in Barcelona and, supports children and young people with severe disabilities through a specialised care centre that offers tailor-made treatment and daily assistance. We have supported Nexe Fundació since 2007, and our funds last year helped finance the Respira y Ocio (Breathe & Leisure) programme.* This programme offers adapted leisure activities every weekend and summer camps (unique in Catalonia), helping 108 children and 200 families in 2020.

Fundació Fàtima *operates a children's home and a care home in Barcelona. For over 15 years we have been partnered with Fundació Fàtima and are delighted that our funds this last year have been put towards the charity's project to build a terrace for its retirement home.* This will allow its 45 residents much needed outdoor space and the chance to enjoy the views of the sea and take in the fresh air.

Looking ahead, we aim to continue to deliver impactful initiatives in line with our charity programme during 2021 and to continue to work with our charity partners to make a difference to our local communities.

Strategic Report



People

TMHCC International's workforce is made up of close to 1,000 employees. More than 700 of these are based in the UK, where headcount increased by 20% in 2020, reflecting the continuing growth of our business.

Our values and vision

The TM Group's corporate vision is to be a Good Company which encompasses the values we aim to represent including *Collaboration, Look Beyond Profit, Empower Our People and Deliver on Commitments.* The Group incorporates this overarching vision into its culture and values.

The overall response rate for the TMHCC Group's 2020 Culture and Values Survey was 80%, in line with the prior year's response rate. The highest scores were in the *Culture, Look Beyond Profit and Group Attachment* categories, reflecting our employees' commitment to doing what is right for our company, our customers, and the wider community. It also demonstrates pride in being part of the wider TM Group. We are proud to say that, despite operating in a global pandemic, the scores in the Purpose and Engagement categories all increased over the 2019 scores. This positively reflects the focus on communications to our employees during 2020 and throughout the pandemic.

Engaging people

During 2020, the TMHCC Group implemented a new performance management tool, which facilitates real time feedback between employee and manager and between colleagues and enables goal management and feedback to be more agile via regular checkpoints throughout the year. Goals are evaluated to determine if they were achieved and whether this completion was within the framework of the TM Group's core values of *Collaboration, Look Beyond Profit, Empower Our People and Deliver on Commitments.*

Our employee retention is enviable, with nearly a quarter of our employees having more than ten years' service. Employee turnover is monitored on a quarterly basis, with analysis of the factors contributing to employee turnover to enable timely actions around that may drive turnover.

Developing people

Talent development is a high priority, and in 2020 has included a particular focus on developing and retaining future leaders with the right skills, knowledge, and experience to lead the company in its future endeavours and growth.

The TMHCC Group's corporate programmes, such as the Leadership Excellence and Development Programme and the Elevating Women in Leadership Programme, support talent development for future leaders of our business, ensuring that we have pipeline of talent and a robust succession plan for key roles.

During 2020, Learning & Development (L&D) resources have increased to support the implementation of the L&D strategy. This includes promoting employee awareness and understanding of the L&D vision and related offerings, which we believe will inspire our employees to take accountability for their learning journeys.

Inclusion and diversity

Inclusion and Diversity (I&D) is key to the Group being a sustainable, successful business, and we want to foster an inclusive culture where employees can be themselves.

As detailed on page 23, as part of its Sustainability governance structure, a new Workplace Group was established with a remit to work with HR to identify areas of development or improvement in relation to our People strategy. This includes, but is not limited to, wellbeing, L&D and I&D. The Workplace Group comprises representatives from HR and others throughout every part of the business, as well as employee representatives who rotate annually.

A key objective of the Workplace Group is to facilitate the resources to support an inclusive culture and working environment. Specifically, this includes raising awareness of issues around I&D and the use of metrics to evaluate progress towards an inclusive culture. This will assist identification of areas for focus. Diversity data capture is now part of the recruitment process, and we will continue to improve and analyse these metrics.

The Group participated in the largest ever culture survey in the insurance sector, which was conducted by Lloyd's. Unsurprisingly the survey results showed the need for a more inclusive environment across the market, and Lloyd's have established a target of 35% female representation in leadership positions by 31 December 2023. We are reviewing our diversity data and are working to establish internal targets.

We continue to promote employee awareness by celebrating and educating around key events, this year including Black History Month, Dive in Festival and World Mental Health Day.

Health and wellbeing

The health and wellbeing of our employees is extremely important – more important than ever given the challenges of the pandemic, which has required us all to navigate the challenges brought about by remote working.

An employee survey was undertaken in June 2020, which provided insight and understanding about employees' views about the return to office and how the circumstances brought about by the pandemic had affected their wellbeing. Results showed that 96.7% of respondents felt they had been appropriately supported by the Group during lockdown and while working from home. The detailed feedback from the survey enabled us to expand existing wellbeing programmes. Further expansion of initiatives to support employees' wellbeing remains a priority in 2021.

During 2020 we introduced a number of wellbeing initiatives, which included:

- The launch of a digital GP service giving our UK employees free access to a GP online 24/7 and an Employee Assistance Programme (EAP) for our employees in Europe.
- The introduction of a 'Wellness Allowance' for all our employees to encourage them to invest in either physical or creative activities that help with their wellbeing.
- Free employee access to a mindfulness app with a 41% take up rate across the TMHCC Group.
- Mental health awareness training for our managers; we will continue to provide training to all employees during the coming year on topics such as resilience, stress, remote working and digital wellbeing.
- The launch of several social initiatives encouraging employees to connect with each other, such as a Buddy Programme for new joiners. We have continued these initiatives by launching a virtual events calendar in January 2021, which will include activities ranging from yoga to cookery classes.

2021 priorities

In 2021 our priorities will be focused on continuing to support our employees and their wellbeing as we hopefully head towards the end of the pandemic, as well as defining a new way of working in readiness for when our employees can return to the workplace.

Strategic Report

Business conduct and ethics

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

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

Conduct

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

Throughout 2020, the Group continued to ensure the following activities were undertaken: reviews of all new products; customer advocate reviews of wordings; comprehensive due diligence on all third parties with whom we do business prior to engagement and audits undertaken thereafter; allocation of product risk ratings and continual monitoring of the highest ratings using detailed management information to ensure fair consumer outcomes; and compliance monitoring on licensing, sanctions and financial crime practices. During 2020, the Group continued to monitor the performance of its products to ensure they performed fairly and as intended.

Complaints

The Group is dedicated to ensuring policyholders and claimants receive a high-quality service, and aims to ensure that complaints are handled fairly, effectively, and promptly and resolved at the earliest opportunity, minimising the number of unresolved complaints that may need to be escalated. This objective was demonstrated in 2020 when the Group invested in software to further facilitate the efficient management of complaints.

There are effective and transparent procedures in place concerning the handling of complaints, which ensure proper investigation and appropriate resolution of complaints. The complaints handling procedure outlines the process for the handling of complaints to ensure they are identified and handled in accordance with regulatory expectations.

The Group monitors complaints received on all lines of business using detailed management information to ensure fair consumer outcomes. Among a number of indicators, the management information monitors volume of complaints, complaint outcomes and any findings arising from the Financial Ombudsman Services in the UK and Europe in the event that a policyholder disagrees with a decision made by the Group in respect of a complaint. These complaint metrics are reported as part of the Non-Financial KPIs - see page 32.

Sanctions

The Group is subject to UK and European sanctions and Office of Foreign Assets Control (OFAC)-administered US sanctions in territories where it is deemed to be a US Person (Iran, Cuba, and Syria). To ensure the Group avoids writing business with exposure or potential exposure to sanctions targets, the Compliance Department ensures all employees within the business have sanctions awareness this is achieved through the provision of e-training for all employees. The Group also runs real-time and batch-screening that is designed to identify possible matches between potential insureds or claimants and listed sanctions targets. The results of these tests are reported as part of the Non-Financial KPIs – see page 32.

Licensing

The Group's policy is to seek licensing or registration as an approved (re)insurer where it may not legitimately accept risks on a non-admitted (unlicensed) basis. The Compliance Department undertakes a monthly review to ensure adherence to licensing requirements, and the results of these reviews are provided as part of the Non-Financial KPIs – see page 32.

Anti-bribery and corruption

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

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

All business that would expose the Group to any parties domiciled in countries that exhibit a high corruption risk (countries with a score of 20% or less on the Transparency International Corruption Perceptions Index (CPI)) require approval from a member of the executive team prior to inception, and the receipt of approval is monitored by the Compliance Department. The Non-Financial KPIs on page 32 set out the number of instances when the Group sought executive approval during 2020.

Money laundering and financial crime

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

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

In addition to the standard controls in place, the Compliance Department undertook a major internal Financial Crime Risk Assessment covering the following areas: bribery, corruption, money laundering, financial crime, sanctions and whistleblowing. A follow-up to the 2019 Financial Crime Risk Assessment was undertaken in 2020.

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

The results of the Group's money-laundering controls are set out as part of the non-financial KPIs – see page 32.

Procurement, outsourcing and working with third parties

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

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

Whistleblowing

The Group's Whistleblowing Policy follows accepted best practice and regulatory requirements, has been specifically emphasised in communications by the executive, and is centrally accessible to employees via the intranet. It outlines the procedures and processes for when and how to speak up about wrongdoing within the organisation. An individual can raise a concern internally or externally (for example in the UK via the PRA or the FCA) or via an externally provided confidential hotline. The non-executive Chairman of the Group's Audit Committee has been appointed as Whistleblowing Champion and reports have been provided to the Group's Audit Committee on the whistleblowing arrangements. The Group's Whistleblowing Policy was updated in 2020 to include the number for the new confidential hotline.

The Compliance category within the TMHCC Group 2020 Culture and Values Survey scored highly, reflecting a workforce that are fully engaged, understand our approach to whistleblowing, and feel confident in their ability to speak up. No whistleblowing concerns were reported through the internal or external channels during 2020.

Data protection

During 2020, the Group worked to further refine the Data Protection Framework. The existing framework documentation was reviewed and amended as required to ensure it could be applied across the Group, and additional documents were created as necessary. The Data Protection Impact Assessment (DPIA) process has been further embedded within the Group, with all new projects now being subject to scrutiny with DPIAs completed.

There is a dedicated Data Protection Department in the UK with increased resource to provide requisite support to the Group. The team has worked to further improve its General Data Protection Regulation (GDPR) processes, in particular with respect to TME. This team has moved from a GDPR-centric approach to one with a worldwide focus, identifying and assessing the impact of impending privacy changes on the Group and locations in which it underwrites business. The team has worked closely with the TME Data Protection Officer to assist her in developing the face-to-face GDPR training that has now been delivered to TME employees.

Following regular Data Protection Committee meetings in 2019, data protection continued to be prioritised with the establishment of an enhanced governance framework in 2020. Investment in software solutions to more efficiently manage the challenges arising from the increasingly diverse and impactful privacy legislation is also evidence of the importance being given by the Group to the subjects of privacy and data protection.

Climate-related disclosures

In June 2017, the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) published recommendations to encourage businesses to increase disclosure of climate-related information covering the following areas: Governance, Risk Management, Strategy, and Metrics & Targets. In 2019, the PRA issued its Supervisory Statement (SS3/19) Enhancing Banks' and Insurers' Approaches to Managing Financial Risks from Climate Change, setting out its expectations for financial risk from climate change, which included the requirement for firms to develop their approach to disclosures in respect of financial risk from climate change, recommending the TCFD framework.

In 2019, the Group joined ClimateWise, part of the University of Cambridge Institute for Sustainable Leadership (CISL). ClimateWise is an initiative that supports the insurance industry to respond to and disclose the risks and opportunities associated with the climate risk. During 2020, the Group reported for the first time (in respect of the financial year ended 31 December 2019) against the ClimateWise principles, which are closely aligned to the TCFD recommendations.

This year, the Group has taken the first step to report in line with the TCFD framework and incorporate these disclosures within its Strategic Report.

Governance

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

During 2020, the Board discussed climate change risk as part of the following: consideration of the acquisition of GCube, the renewable energy Managing General Agent; discussion of 'Managing climate-related financial risk' – thematic feedback from the PRA's review of firms; and sustainability risk (including climate risk) updates. Climate change risks and opportunities are also specifically considered in the Strategic Business Plan, which is reviewed and discussed by the Board.

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

The Sustainability Committee is working to develop the Group's Sustainability Strategy, which will respond to climate-related risks and opportunities as well as the wider ESG areas covered by the Group's sustainability governance structure (set out on page 23).

Risk management

The Group has a robust ERM framework (detailed on pages 48 to 49), which is embedded throughout the organisation, ensuring the right processes and procedures are in place to identify, monitor and mitigate the risks associated with the business and its operations. Climate-related risk was initially identified as part of the Group's emerging risk discussions and, as the profile of this risk has increased significantly and is recognised as a key risk, it has been included within the Group's risk framework (live risk tracker). The Group decided to make Sustainability Risk (i.e. the strategic and operational risks of addressing ESG concerns, including climate change) a standalone risk rather than cover it within the six principal risk categories, while it continues to develop, and this affords transparency over the management of the risk.

Strategy

The Group is cognisant of the importance of climate-related risks to its business, clients and other stakeholders. As a result, the Group considers climate-related risks and opportunities in its business decisions including underwriting and exposure management, particularly in relation to physical risks and reinsurance decisions; investment performance, ERM Risk framework, policies, and processes; and strategic acquisitions, specifically the decision to acquire a renewable energy Managing General Agent (MGA).

The Group is developing its Sustainability strategy, which will align with its business strategy and will continue to integrate consideration of climate-related risks and opportunities into its business and operations in the coming years.

Physical risk

The Group has exposure to physical risks due to its exposure to natural catastrophe events such as windstorm, flood and earthquake. The lines of business that are exposed to these natural catastrophe events are those within the London Market underwriting division (detailed on page 17) and the underwriters have a well-developed understanding of physical risks from climate change.

Physical risk is well managed through the Group's strategy of writing a diverse and balanced portfolio of risks in order to limit the variability of outcomes. This is achieved by accepting a spread of business over time, segmented between different products, geographies and sizes. Annual policies enable the Group to respond to changing weather patterns, and our comprehensive reinsurance programme provides protection against losses from severe weather events.

The Catastrophe Exposure Management (CEM) team supports the underwriting and assessment of risks by monitoring catastrophe exposures through geocoding location reporting for all risks and use of weather peril models.

Supporting low-carbon transition

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

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

Streamlined energy and carbon reporting

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

In line with the UK Government's Streamlined Energy & Carbon Reporting (SECR) framework, the table below shows the Group's UK operational energy and carbon footprint. There was no SECR requirement for the Group for the financial year ended 31 December 2019, therefore no comparative data for 2019 has been included.

2020	
Energy consumption used to calculate emissions	kWh 1,667,924
Emissions from consumption of gas tonnes of carbon dioxide equivalent (tCO_2e) (Scope 1)	48
Emissions from consumption of transport fuel tCO_2e (Scope 1)	154
Emissions from consumption of purchased electricity tCO_2e (Scope 2 location-based)	192
Total gross CO_2e	394
Intensity ratio: tCO_2e/$m	0.48

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

Non-financial KPIs

Non-financial KPIs	Description	2020 result
Sanctions	Sanctions matches (UK, European and OFAC-administered US sanctions in territories where the Group is deemed to be a US Person).	• No submissions were declined due to exposure to specific named sanctions targets nor were any policies cancelled. • No claims were received that would have exposed the Group to the risk of infringing any sanctions.
Licensing	Policies written in line with licensing restrictions/permissions.	• 11 risks were re-stamped (seven HCCII to TME and four HCCII to HCC Syndicate 4141).
Bribery and corruption	Executive approval pre-inception for risks where a party is domiciled in countries with a score of <20% on the CPI Index.	• Approval was not sought post inception during 2020.
Money laundering	Executive approval required pre-inception for risks where a party is domiciled in countries with a score of >7.5 on the Basel AML Index Return Premiums >15% of the gross premium and >£10,000 (or £1,000 for PI) up to two months after inception; and any claims made within seven days of policy inception.	• Approval was sought (post-inception) once in 2020 in respect of one transaction involving the Bahamas, at the time listed by the Financial Action Task Force (FATA). • The bi-annual review of returned premiums and claims provided no grounds for the suspicion of money-laundering in 2020.
Volume of complaints	Total number of complaints received.	31
Complaint outcomes	The number of complaints received that have been upheld, i.e. where the policyholder's complaint is found to be justified. The number excludes complaints where the Group does not accept any wrongdoing but has made an ex-gratia payment to the insured.	6
Financial Ombudsman Services (FOS) outcomes	% of complaints that have been upheld by the FOS following referral of complaint by an eligible policyholder who disagrees with the Group's final decision.	0%
Voluntary employee turnover metric	The number of permanent non-fixed-term contract employees, of the HCC Service Company, Inc. (UK branch) and TME, who have voluntarily left over the last 12 months, divided by the average number of permanent non-fixed-term contract employees over the last 12 months.	• 8.5% at 31 December 2020. • The voluntary employee turnover metric was Green for 2020 and was at its lowest for the last five years despite headcount increasing. • The Group will continue to monitor turnover and the reasons driving it, and will take steps to address any identifiable trends.

Non-financial information statement

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

Reporting requirement	Policies and standards that govern our approach	Risk management and additional information
Environmental matters	• CSR Strategy	Principal risks and uncertainties pages 34 to 38 Stakeholder engagement pages 13-16
Employees[1]	• Code of Business Conduct and Ethics[2]; • Employee Handbook[2]; • Health and Safety Policy[2]; • Diversity and Equal Opportunity Policy[2].	People pages 26 to 27 Stakeholder engagement pages 13 to 16
Human rights	• Modern Slavery Statement; • Data Protection Policy[2].	Business conduct and ethics pages 28 to 29 Stakeholder engagement pages 13 to 16
Social and community	• Voluntary Work Policy[2]; • CSR Strategy.	Charity and community pages 24 to 25 Stakeholder engagement pages 13 to 16
Anti-corruption and anti-bribery	• Financial Crime Manual[2]; • Anti-Bribery and Corruption Policy[2]; • Anti-Money Laundering Policy[2]; • Gifts and Entertainments Policy[2]; • Whistleblowing Policy[2].	Business conduct and ethics pages 28 to 29 Principal risks and uncertainties pages 31 to 35
Policy embedding, due diligence and outcomes	Principal risks and uncertainties pages 34 to 38	
Description of principal risks and impact of business activity	Principal risks and uncertainties pages 34 to 38 Business model pages 9 to 12 and Stakeholder engagement pages 13 to 16	
Description of the business model	Business model pages 9 to 12	
Non-financial KPIs	Non-financial KPIs page 32	

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

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

Principal risks and uncertainties

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

Risk	Description	Mitigating actions/factors
Insurance	• The four key components of insurance risk are; premium or future underwriting risk (including delegated authorities); reinsurance purchasing; claims management; and reserving. • The Group's insurance business assumes the risk of loss from persons or organisations that are themselves directly exposed to an underlying loss. Insurance risk arises from this risk transfer due to inherent uncertainties about the occurrence, amount and timing of insurance liabilities.	• An underwriting strategy that seeks a diverse and balanced portfolio of risks. • A reserving policy to produce accurate and reliable estimates that are consistent over time and across classes of business. • Setting and regularly monitoring risk appetites. • Individual authority limits for all employees authorised to underwrite, and business plans for each line of business. • Claims teams focused on delivering quality, reliability and timely service to both internal and external clients. • Using reinsurance to protect the Group's balance sheet. • Monitoring exposures using modelling tools.
Strategic, regulatory and Group	Risks that arise from: • the Group's strategy being inappropriate or the Group being unable to implement its strategy; • the Group not complying with regulatory and legal requirements; and • the Group failing to consider the impact of their activities on other parts of the TMHCC Group and vice versa.	• Setting and regularly monitoring risk appetites. • A management structure that encourages organisational flexibility and adaptability, while ensuring that activities are appropriately co-ordinated and controlled. • Operating across the TMHCC Group with clear and open lines of communication to ensure all TMHCC Group entities are well informed and working towards common goals.
Market	• Market risk arises where the value of assets and liabilities or future cash flows change because of fluctuations in economic variables, such as movements in foreign exchange rates, interest rates and market prices.	• The Investment Committee has an objective to ensure funds are invested in accordance with the 'prudent person principle', whereby assets: i) are of appropriate security, quality and liquidity; ii) are adequately diversified and are localised; and iii) broadly match the liabilities. • Adhering to an investment risk appetite that forms part of the Group's overall risk appetites. • Setting and regularly monitoring risk appetites. • Independent investment experts assist with the implementation of the investment strategy and monitoring of the economic environment and investment performance.

Risk	Description	Mitigating actions/factors
Operational	• Operational risk arises from the risk of losses due to inadequate or failed internal processes, people, systems, service providers or external events. Operational risk includes conduct risk.	• Performing business activities in a fair, honest and transparent manner that complies fully with applicable UK and international legal and regulatory requirements, and internal policies and procedures. • Setting and regularly monitoring risk appetites. • Scenario testing and modelling operational risk exposure. • Management review of operational activities, including IT and IT security. • Documented policies and procedures. • Ensuring key processes include preventative, directive and detective controls. • Business continuity and contingency planning. • Established and embedded systems controls.
Credit	• Credit risk arises where counterparties fail to meet their financial obligations in full as they fall due. The primary sources of credit risk for the Group are from reinsurers; brokers and coverholders; investments; and financial institutions holding cash.	• Setting and regularly monitoring risk appetites. • Limiting exposure to a single counterparty or a group of counterparties. • Established guidelines and approval procedures for counterparties.
Liquidity	• Liquidity risk arises where cash may not be available to pay obligations when due at a reasonable cost. The Group is exposed to daily calls on its available cash resources, principally from claims arising from its insurance business. In most of cases, these claims are settled from premiums received.	• Liquidity management: - using cash flow forecasting to ensure that surplus funds are invested to achieve a higher rate of return; and - so that the Group can reasonably survive a significant individual or market loss event.

Strategic Report

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

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

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

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

Sustainability risk

The issue of sustainability, whether it relates to the strategic and operational risks of addressing environmental, social and governance concerns, including climate change, or our social responsibilities to both our external and internal stakeholders, is not a new risk. However, its profile has raised significantly during 2020, in part driven by the PRA's published expectations of firms in respect of their management of financial risks from climate change in Supervisory Statement 3/19 (SS3/19), and progress has been made by the Group in 2020 towards articulating its philosophy related to Sustainability, as detailed on pages 23 and 30 to 31.

Post-Brexit risks

Late in 2020, the UK government signed an EU-UK Trade and Co-operation Agreement that came into provisional force as the Brexit Transition Period ended on 31 December 2020. However, the UK will have to wait until later in the year to learn what market access rights UK financial services companies will have in future, and this leaves some residual post-Brexit risk for the Group. To mitigate this risk, the Group is keeping in close contact with both the market and UK and European regulators, including the CAA, to ensure that any issues are identified early and appropriate action is taken.

Operational resilience

Operational resilience, which relates to the ability of an insurer to absorb shocks and maintain smooth business services during adverse conditions, is another regulatory focus, with both the PRA and FCA articulating their expectations in this regard. While operational resilience has been embedded within existing business continuity processes for many years, the fresh regulatory focus gives the Group the opportunity to review and further develop a robust operational resilience framework, which will be implemented to reflect the final requirements of both regulators ahead of the 31 March 2022 deadline.

Covid-19 risk

The Group's strong risk and governance frameworks ensured the Group continued to operate effectively in the new pandemic environment which emerged in March 2020. Part of the adaptation to that new environment was the development of a pandemic risk register to sit alongside the existing frameworks that were incorporated into reporting to the Risk & Capital Management Committee. The table below illustrates the principal potential risks for the Group's business and operations that were identified as a result of the pandemic risk review, spit by risk area. The overall strategy of the Group includes some fundamental aspects which that materially mitigated the potential impacts of these Covid-19 risks and the various mitigations in place to reduce the impact of these risks are also described in the table below.

Risk area	Principal potential pandemic risks	Mitigating actions/factors
Insurance	• Increased claims activity. • Reinsurance exhaustion. • Insufficient reserves held. • Reduction in future business. • Inability to purchase future reinsurance.	• Contract-by-contract review of direct and indirect potential exposures. • Consideration of the impact of the global economic environment on the portfolios. • Daily underwriter briefings ensuring senior management is kept abreast of the rapidly developing market conditions, enabling the business to operate proactively. • Comprehensive outwards reinsurance purchased from high-quality reinsurers with whom the Group has long-standing trading relationships. • Several unlimited Quota Share treaties in place (internal and with third parties) for a number of lines of business. • Partnering with reinsurers as claims develop. • Reserving policy producing accurate and reliable estimates that are consistent over time and across classes of business.
Strategic, regulatory and Group	• Inability to implement strategy. • Inability to meet future business plan targets. • Failure of other TM Group companies.	• Diversified and well-balanced portfolio of business comprising of a number of non-correlating lines of business. • Comprehensive outwards reinsurance purchased from high-quality reinsurers with whom the Group has long-standing trading relationships. • Maintenance of good liquidity. • Reserving policy producing accurate and reliable estimates that are consistent over time and across classes of business. • Regular monitoring of regulatory capital and maintenance of a high excess over regulatory capital. • Each TM Group company independently capitalised.

Risk area	Principal potential pandemic risks	Mitigating actions/factors
Market	• Investment market volatility. • Asset/liability mismatch due to different claims/premium profiles.	• Investment in secure and readily realisable assets. • Net assets are reviewed by currency on a monthly basis to monitor any potential mismatch and to identify whether management needs to take any action to reduce any material mismatches.
Operational	• Inability of the business to fully work remotely. • Employee welfare/sickness issues. • IT security/fraud issues. • Failure of outsourcing arrangements to function as expected.	• IT infrastructure and software has enabled a smooth transition to remote working without substantial disruption. • Early instigation of the established business continuity protocols, which included specific pandemic responses, facilitated a successful quick transition of the Group's operations from primarily office-based to almost exclusively remote-based. • To assist with employee welfare, the introduction of a range of initiatives (such as online exercise and hobby sessions, wellbeing surveys, training sessions, additional employee assistance services), as well as the close monitoring of employees perceived to be particularly at risk by both managers and HR. • Each material outsource arrangement has regular audits confirming the appropriateness of the supplier's own business continuity arrangements, allied with closer interaction with the suppliers during the pandemic, to ensure early identification of any potential issues. • Additional monitoring of third-party outsourcing where considered appropriate.
Credit	• Reinsurance/premium or investment counterparties unable to make payments.	• Comprehensive outwards reinsurance purchased from high-quality reinsurers with whom the Group has long-standing trading relationships. • Proactive claims mitigants in place with reinsurer involvement. • Increased cash flow and reinsurance credit monitoring.
Liquidity	• Disinvesting from assets due to increase in claim payments, delay in reinsurance recovery payments and decrease in premium inflows.	• Investment in secure and readily realisable assets.

Corporate Governance

Board of Directors

At the year ended 31 December 2020, the Group Board comprised: the Chairman; Chief Executive; Group Chief Financial Officer; Chief Underwriting Officers (London Market and Specialty); Chief Risk Officer; two Independent Non-Executive Directors; and a Non-Executive Director. The Chief People Officer and Managing Director – Japanese Business joined the Group Board in Q1 2021. The Group Board's primary responsibility is to promote the long-term success of the Group by creating and delivering sustainable value. The Board seeks to achieve this by delivering its strategic objectives while ensuring that its values and culture align with that purpose.

Nick Marsh
Chairman

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

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

Barry Cook
Chief Executive Officer

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

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

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

Simon Button
Chief Underwriting Officer – London Market

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

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

Thibaud Hervy
Chief Underwriting Officer – Specialty Lines

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

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

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

Katherine Letsinger
Group Chief Financial Officer

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

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

Graham White
Chief Risk Officer

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

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

Hans-Dieter Rohlf
Independent Non-Executive Director

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

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

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

Craig Scarr
Independent Non-Executive Director

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

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

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

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

Kiichiro Hatakeyama
Non-Executive Director

Kiichiro was appointed a Non-Executive Director of HCCII in September 2019. He has spent over 20 years with the TM Group, undertaking various roles that have included: Head of Europe, Americas and Reinsurance Group for the International Business Development Division of the TM Group, and Chief Operating Officer and Director of Tokio Millennium Re AG.

Kiichiro is currently Head of Group Coordination at Tokio Marine Kiln Limited and is a director of HCCUA, Tokio Marine Underwriting Ltd and Tokio Marine Kiln Group Limited.

Board members and attendance

There were six scheduled Board meetings held during 2020. In addition, the Board held three additional ad hoc meetings: one was to discuss and approve the GCube acquisition and the other two meetings discussed the impact of Covid-19 on the Group's business and operations. The following table shows each Director's attendance at meetings of the Boards during the financial year. The Chairman meets privately with the Independent Non-Executive Directors before each scheduled Board meeting.

Member	Eligible to attend	Attended
Chairman		
Nicholas Marsh	9	9
Executive Directors		
Simon Button	9	9
Barry Cook	9	9
Thibaud Hervy	9	9
Katherine Letsinger	9	9
Graham White	9	9
Non-Executive Directors		
Kiichiro Hatakeyama	9	9
***Nick Hutton-Penman**	6	5
Independent Non-Executive Directors		
Hans-Dieter Rohlf	9	9
Craig Scarr	9	9

*Nick Hutton-Penman resigned from the Board on 25 August 2020.

Board's Activities in 2020

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

Strategy/business performance

- Received updates on the Group's 2020 Outwards Reinsurance Programme.
- Approved the acquisition of GCube and RELA.
- Approved the Marine Cargo line of business.
- Approved the Annual Report & financial statements 2019.
- Frequently considered the impact of Covid-19 on the Group's business and operations.
- Received detailed reports on the Group's business and financial performance and considered performance against budget.
- Frequently considered the insurance market environment and rates, including the impact of market losses, new and existing markets, regulatory changes and the resulting impact on the industry as a whole.
- Received reports and updates in respect of Sustainability, including financial risk from climate change.
- Considered and approved strategic initiatives proposed by management.
- Received updates on progress against strategic initiatives.
- Frequently considered the evolving economic, political, regulatory and market conditions relative to Brexit.
- Received updates on TME's operation and its Target Operating Model.
- Set and approved the 2021 - 2023 budget and Strategic Business Plan.

Risk and capital

- Conducted quarterly reviews of the Group's risk profile and risk register, covering key internal, external, and emerging risks.
- Received quarterly updates on the Group's strategic risk metrics and conducted an annual review of the risk appetites and metrics.
- Regularly reviewed key risks, together with the adequacy of mitigation controls.
- Received updates on the PRA's Operational Resilience requirements and the associated project.
- Formal review and approval of Own Risk and Solvency Assessment (ORSA) and Validation Reports.
- Approved the Capital for the Group.
- Considered the adequacy of capital to support the 2021-2023 budget and Strategic Business Plan.
- Reviewed the Standard Formula vs. Internal Model results.

Governance

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

Board training

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

- GCube Underwriting
- European P&C Business
- Exposure Management & Market Catastrophes
- Contingency & Disability Underwriting

Governance Structure

Board

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

The Board delegates responsibility for certain areas to eight principal committees

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

Supporting committee/groups

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

Nomination Committee

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

The Committee's primary objective, when necessary, is to identify and evaluate candidates for future appointments and, in doing so, will follow its appointments procedure which includes taking advice from independent external recruitment consultants. In 2020, the Committee was chaired by Nick Marsh and comprised two other Independent Non-Executive Directors (Hans-Dieter Rohlf and Craig Scarr) and Barry Cook (Chief Executive).

Audit Committee

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

The Committee has clearly defined terms of reference, which are reviewed annually and are available from the Company Secretary. These outline the Committee's objectives and responsibilities relating to financial reporting, internal financial controls, and the application of appropriate accounting standards and procedures. Specific responsibilities include: reviewing and recommending for approval the annual financial statements; reviewing the Group's accounting policies; reviewing the effectiveness of internal financial controls; internal audit processes; reviewing the quarterly reserve recommendations from the IBNR Committee and the quarterly actuarial analysis; reviewing the effectiveness of the whistleblowing procedures; and reviewing the scope and results of the external audit.

Craig Scarr, a Chartered Accountant, was appointed Chair of the Committee in 2016. In 2020, the Audit Committee comprised two other Independent Non-Executive Directors (Nick Marsh and Hans-Dieter Rohlf). The Board is satisfied with the recent and relevant financial experience of the Committee Chairman.

Risk and Capital Management Committee

The Group has a Risk and Capital Management Committee that oversees the Group's risk management framework and approach to capital. The main responsibilities of the Committee are: to make recommendations to the Board in respect of its risk strategy, risk appetites and tolerances; to ensure there is an effective and integrated risk management framework in place that allows inherent and emerging risks to be identified, monitored and mitigated in a timely manner (see Principal risks and uncertainties on pages 34 to 38 and Note 6); and to recommend to the Board the regulatory capital requirements.

The Committee is chaired by Craig Scarr (Independent Non-Executive Director). The Committee also comprises Hans-Dieter Rohlf (Independent Non-Executive Director), all the Executive Directors, and the functional leaders, including the Group Chief Operations Officer, Interim Chief Actuary and the Head of International Compliance. The Board remains satisfied that the composition of the Committee strengthens the Group's risk management framework, and that the Committee remains focused on the key risks affecting the Group's financial and operating performance.

Investment Committee

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

Katherine Letsinger (Group Chief Financial Officer) chairs this Committee, and in 2020 its membership comprised Nick Marsh (Independent Non-Executive Director), Barry Cook (Chief Executive), Simon Button (Chief Underwriting Officer – London Market), Graham White (Chief Risk Officer), the TMHCC Group's Chief Financial Officer and the TMHCC Group's Head of Investments.

Remuneration Committee

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

In 2020, the Remuneration Committee was chaired by Nick Marsh (an Independent Non-Executive Director). Other members include Barry Cook (Chief Executive), Katherine Letsinger (Group Chief Financial Officer) and Angela Baker (Chief People Officer).

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

The main purpose of the EUMCs is to ensure that the lines of business operate in accordance with the Group's strategic objectives. The key responsibilities of the EUMCs are to: review the line of business performance against budget; to consider the rating, market and loss environments and any impacts on the Group's business; monitor the KPIs and risk metrics for each line of business; and review claims and Incurred But Not Reported Reserves (IBNR) for each line.

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

In 2020, an EUMC was established to cover the J Business written on HCCII from 1 January 2020 alongside the J Business written on TME since 1 January 2019. During 2020, the EUMC J Business was chaired by Thibaud Hervy (Chief Underwriting Officer – Specialty) and included representatives from the J Business division, claims and finance.

Group Data Protection Committee

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

During 2020, the Committee was chaired by the Head of International Compliance and Data Protection Officer. Graham White (Chief Risk Officer) was a member of the Committee along with functional heads from the TMHCC Group and TMHCC International. The main responsibilities of the Committee are the annual production of a Data Protection Plan for the TMHCC Group, to monitor any data breaches and data subject access requests.

Sustainability Committee

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

Corporate Governance Statement

For the year ended 31 December 2020, the Group has applied the Wates Corporate Governance Principles for Large Private Companies (published by the Financial Reporting Council (FRC) in December 2018 and available on the FRC website).

Principle 1 – Purpose & Leadership

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

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

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

Principle 2 – Board Composition

Biographies of each Director can be found on pages 39 to 41 of the Corporate Governance Report.

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

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

The Non-Executive Directors bring experience in insurance, reinsurance, finance, audit, risk, governance, operations and the wider TM Group. In addition, they provide the Board with a diversity of perspectives and objective challenge from outside the Group. The Non-Executive Directors held regular meetings with the Chairman during 2020, and these meetings provided them with the opportunity to exchange views without the presence of the Executive Directors.

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

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

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

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

The Directors update their skills, knowledge of and familiarity with the business by meeting with senior management, receiving regular presentations at Board meetings from specific departments or lines of business within the Group, and by receiving externally facilitated training. The Group has an induction programme for all new Directors, which is individually tailored according to the specific experience and knowledge of the new Director. This programme provides new Directors with access to all areas of the business and its ke individuals. As part of their induction, Directors are briefed on their duties under s172 of the Companies Act 2006, and are able to access advice on these areas throughout their tenure from either the Company Secretary or an independent external advisor.

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

For the year-ended 31 December 2020 the Board effectiveness review was internally facilitated, and the Board is currently agreeing an action plan from this review early in 2021.

Principle 3 – Director Responsibilities

Accountability

The Group's governance framework supports the business to make effective decisions. While the Board has overall responsibility and oversight, the Group's governance framework is designed to ensure that key decisions are made by the individuals and Committees with the most appropriate knowledge and experience. The Board has a schedule of six principal meetings a year and there is a process by which any significant matters are communicated to the Board outside of its scheduled meetings. The Board's key areas of focus in 2020 are included on page 44.

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

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

Committees

The Board is assisted in the discharge of its duties by a number of Board Committees (Audit, Risk and Capital Management, Remuneration, Nomination, Investment, and Sustainability). Each Committee has defined areas of responsibility which are set out in each Committee's terms of reference. The remit and responsibilities of the Board's Committees are set out on pages 44 to 45. A review of the governance structure was undertaken following changes to the senior management team in Q4 2019, and changes to the governance structure and composition of the Committees were recommended to and approved by the Board. The EUMC - J Business was newly established in 2020 and further information on this Committee can be found on page 45.

Integrity of information

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

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

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

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

Principle 4 – Opportunity and Risk

Opportunity

Strategic opportunities (both near-term and long-term) are identified in the Group's Strategic Business Plan, which is presented to the Board annually. The Group considers opportunities drawn from the business as well as those that align with the TMHCC Group's strategy, with the following examples in 2020:

- The Group launched several new lines of business: UK J Business; Delegated Property, and Marine Cargo, which together increase our product offerings and further diversify the Group's portfolio.
- On 31 May 2020, the Group completed the acquisition of GCube and its sister company RELA - this investment in the renewables sector creates further opportunities for our future growth and success.
- The TMHCC Group launched its new global performance management system to improve goal management and feedback for employees.
- The Group commenced the development and delivery of its Digital Strategy.
- The Group's subsidiary, TME, launched its Target Operating Model project to identify improvements and changes to its existing target operating model.

Risk and responsibilities

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

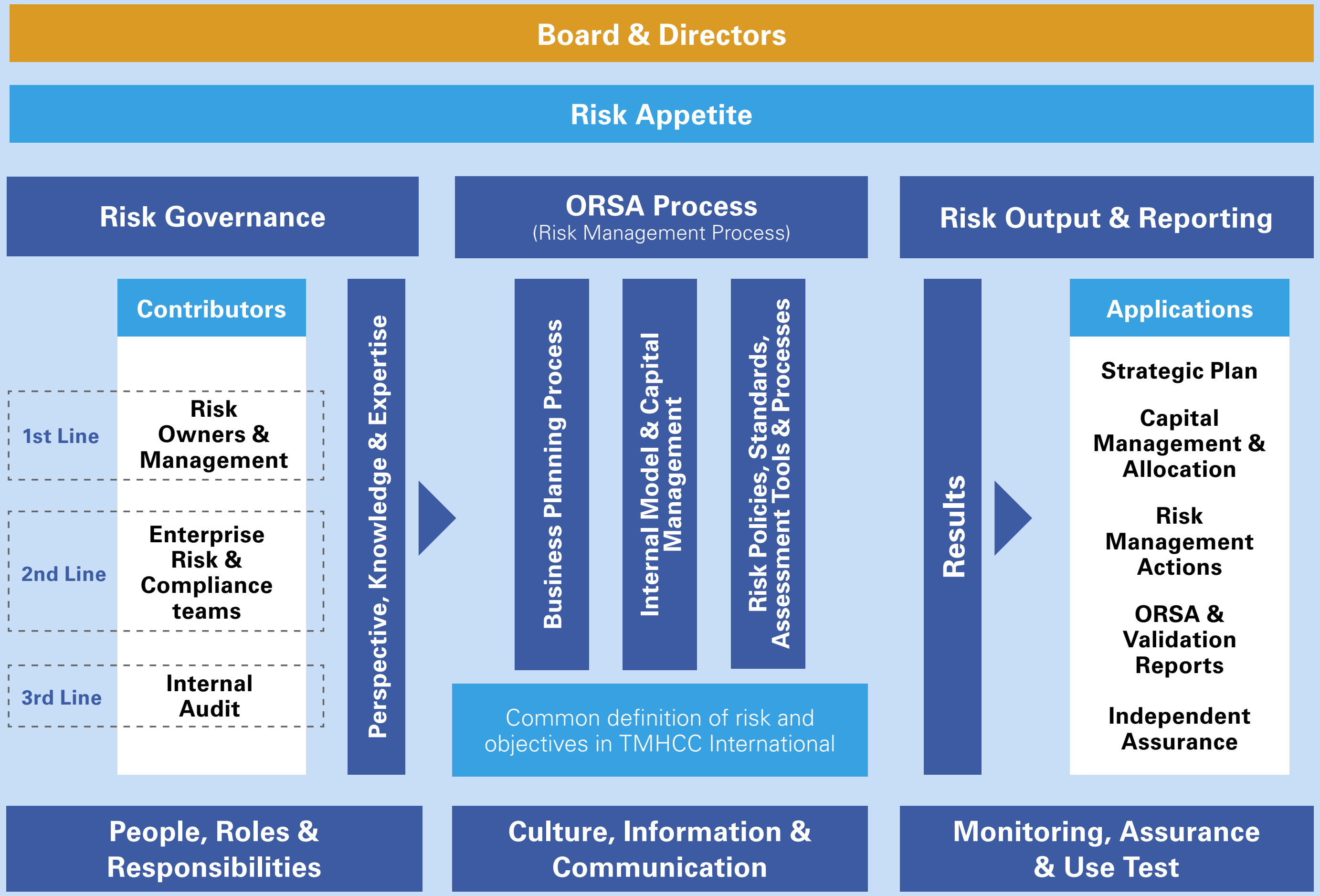
Although the Board has ultimate responsibility for ensuring the Group has a robust ERM framework in place, certain risk management activities are delegated to the level that is the most appropriate to oversee and manage the risks.

The Group's principal risks and uncertainties and mitigations are set out on pages 34 to 38 of the Strategic Report. The Board accepts that the Group's business operations cannot be risk free, therefore the ERM framework is designed to manage risk to a desired level and minimise the adverse effects of any residual risk, rather than to entirely eliminate the risk.

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

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

The diagram below illustrates the Group's ERM framework, demonstrating how Risk Appetite, Risk Governance, Risk Management, Risk Output and Reporting interact with one another.



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

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

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

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

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

Strategic Report

Principle 5 – Remuneration

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

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

The Group promotes a diverse and inclusive workplace, and an environment free from discrimination, harassment and victimisation, where everyone receives equal treatment and career development regardless of age, gender, nationality, ethnic origin, religion, marital status, sexual orientation or disability. All decisions relating to employment practices (including remuneration) are objective, free from bias, and based solely on work criteria and individual merit. As detailed in the People section on pages 26 to 27, the Group has taken steps to further strengthen its Inclusion and Diversity strategy and publishes its gender pay reporting information on its website.

Principle 6 – Stakeholders

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

The Group is aware of its broader impact on its stakeholders including the environment, its customers, and the communities in which it operates. The Group applies the core principles of the Good Company vision, and to support its approach to being a sustainable and responsible business has established a sustainability governance structure to support its activities. Details of its sustainability initiative, and other initiatives, can be found in the following sections: Good Company approach, Charity and community, People, Business conduct and ethics and Climate risk disclosures on pages 23 to 31.

The Board ensures it has effective relationships with all stakeholders through ongoing dialogues that are open, co-operative and transparent. A table showing how the Group has engaged with its stakeholders during the year is set out on pages 13 to 16.

On behalf of the Board

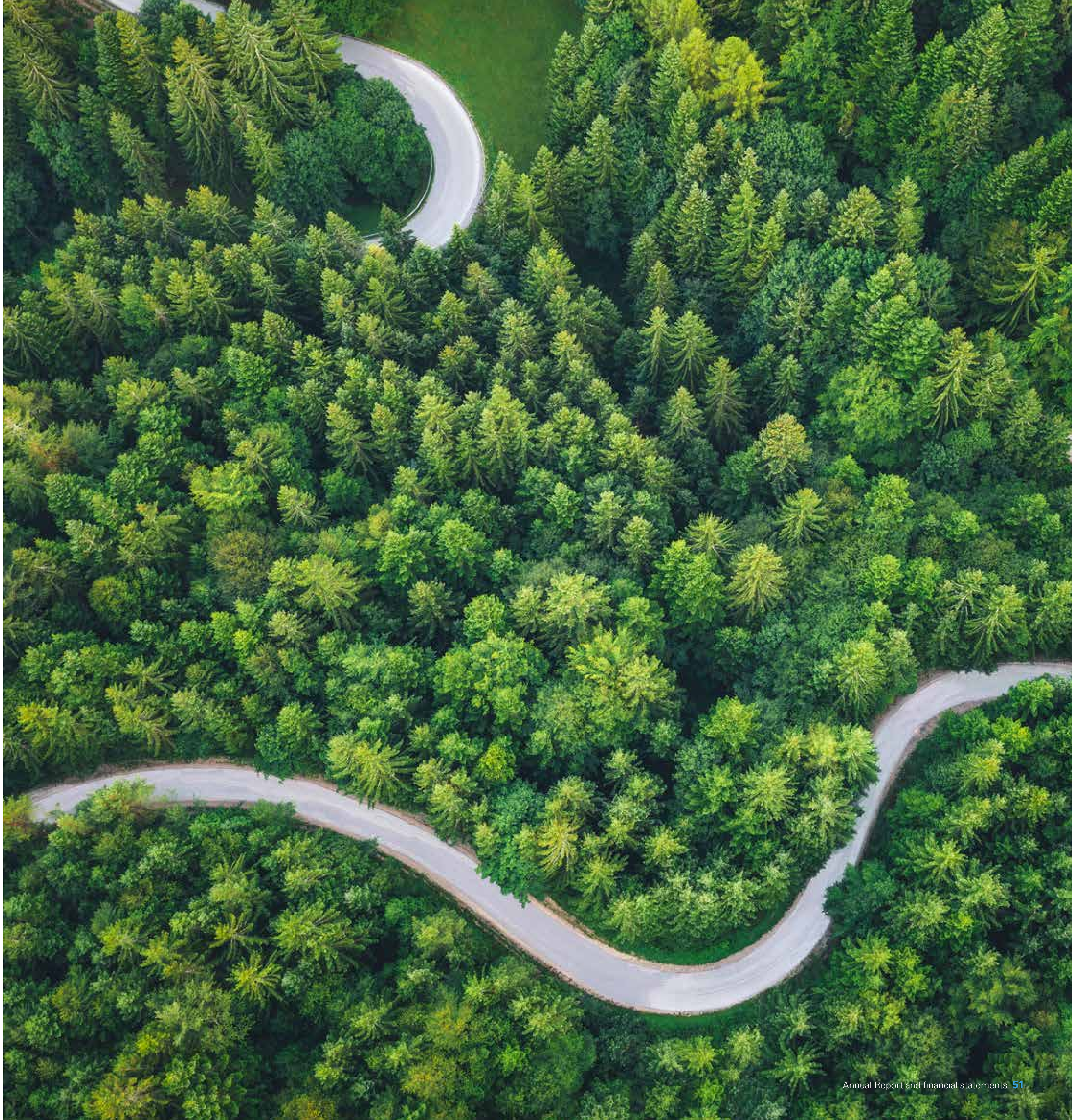
BJ Cook

Chief Executive Officer

1 Aldgate

London EC3N 1RE

8 April 2021



Directors' Report

The Directors present their Directors' Report and the audited financial statements of the Group for the year ended 31 December 2020.

The Directors' Report is set out on pages 52 to 53. Additional information is incorporated into this Directors' Report by reference and should be read as part of it, including information required by the Companies Act 2006 which is contained in the Corporate Governance Statement on pages 46 to 50 and in the Strategic Report set out on pages 4 to 50.

Strategic Report

The Group is required to produce a fair, balanced and comprehensive review of the Group's business for the financial year. The Strategic Report details the Group's business strategy and business model, location of branches outside the UK, a description of the principal risks and uncertainties, a review of the Group's activities and the position of the Group at 31 December 2020, as well as its prospects for the future.

Board of Directors

The Directors of the Group set out below have held office from 1 January 2020 to the date of this report unless otherwise stated:

- A M Baker (appointed 29 January 2021)
- S A Button
- B J Cook (Chief Executive Officer)
- K Hatakeyama (resigned 31 March 2021)
- T J G Hervy
- N I Hutton-Penman (Non-Executive) (resigned 25 August 2020)
- K L Letsinger
- N C Marsh (Non-Executive Chairman)
- H Mishima (appointed 6 February 2021)
- H-D Rohlf (Non-Executive)
- C Scarr (Non-Executive)
- G R A White

Indemnification of Directors and Directors' and Officers' insurance

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

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

Conflicts of interest

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

Financial instruments

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

Independent auditors and disclosure of audit information

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

Statement of Directors' responsibilities

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 UK Generally Accepted Accounting Practice (UK 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 the statements give a true and fair view of the Group and of the profit or loss of the Group for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable UK 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 Group will continue in business.

The Directors are responsible for keeping adequate accounting records. This means records that are sufficient (a) to show and explain the Group's transactions; (b) to disclose with reasonable accuracy, at any time, the financial position of the Group at that time; and (c) to enable the Directors to ensure that the financial statements comply with relevant accounting requirements .

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 Group's website. Legislation in the UK 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 Group's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a Directors to make themselves aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

Going concern

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

The Directors have also considered the impact of the Covid-19 pandemic. Related actions taken by management during 2020 to re-rate premiums charged on impacted renewal and new business, as well as changes in terms and conditions, have limited the impact on the Group from future direct exposure to claims arising from Covid-19. The indirect impact of Covid-19 arising from its impact on the global economy is limited, as is the future economic impact on the investment portfolio, due to the Group's policy of only investing in high-quality, predominantly fixed interest debt.

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

Share capital

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

Voting

Each Ordinary Share of HCCII carries one vote.

Substantial shareholding

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

Dividends

Dividend paid during the year totalled $nil (2019: $nil). No final dividend is recommended.

Post balance sheet events

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

On behalf of the Board

J L Holliday

Company Secretary

Registered in England and Wales at

1 Aldgate

London, EC3N 1RE

Company number 01575839

8 April 202

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

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2020 and of the Group's profit and the Group's cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual report and consolidated financial statements (the "Annual Report"), which comprise: the Consolidated and Company Balance Sheet as at 31 December 2020; the Consolidated Profit and Loss Account and Consolidated Statement of Other Comprehensive Income, the Consolidated Statement of cash flows, and the Consolidated and Company Statements of Changes in Shareholders' Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

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

Basis for opinion

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

Independence

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

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

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

Our audit approach

Context

HCC International Insurance Company plc (the 'Company') and its subsidiaries (the 'Group') is a general insurance group located in the United Kingdom and Continental Europe. The Group operates from a number of offices across the UK and also in Spain, Ireland, France, Switzerland, Germany, Italy, Norway, Belgium, Netherlands and Denmark. Our work to address the audit risks that are inherent to the business is supported by our in-house specialists, with our approach consisting of a blend of controls and substantive testing. Given the impact of Covid-19, substantially all of our interactions were undertaken virtually, including those between the engagement team, with the finance team and with Board members and management. Similarly, substantially all of our audit testing was performed remotely. For further details around the impact of Covid-19 on our audit, please see the 'Impact of Covid-19' key audit matter below.

Overview

Audit scope	Key audit matters	Materiality
We performed full scope audit procedures over the Group's UK insurance company and European insurance company operations. We identified certain other operations where account balances were significant by virtue of materiality in size or audit risk. These balances were scoped into our audit through specified procedures.	Valuation of claims incurred but not reported ('IBNR') reserves and the associated reinsurers' share of claims IBNR reserves (Group and Company) Impact of Covid-19 (Group and Company)	**Overall Group materiality:** US$8.2 million (2019: US$6.8 million) based on 1% increase of combined operating ratio excluding other technical income ("COR"). **Overall Company materiality:** US$6.9 million (2019: US$6.2 million) based on 1% increase of combined operating ratio excluding other technical income ("COR"). **Performance materiality:** US$6.2 million (Group) and US$5.2 million (Company).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Capability of the audit in detecting irregularities, including fraud

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

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

- Discussions with the Board, management, internal audit, senior management involved in the Risk and Compliance functions and the Group and Company's legal function, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Assessment of matters reported on the Group and Company's whistleblowing helpline and fraud register and the results of management's investigation of such matters;
- Reading key correspondence with the Prudential Regulation Authority, the Financial Conduct Authority and other European regulators (where applicable) in relation to compliance with relevant laws and regulations;
- Reviewing relevant meeting minutes including those of the Risk and Capital Management Committee and the Audit Committee;
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations or posted by senior management;
- Designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing; and.
- Testing transactions entered into outside of the normal course of the Group and Company's business.

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

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

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.

The key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
Valuation of claims incurred but not reported ('IBNR') reserves and the associated reinsurers' share of claims IBNR reserves (Group and parent) **Refer to item 3.e in the Summary of significant accounting policies and to note 21 and 9 to the Group and Company's financial statements for disclosures of related policies and balances.** Claims IBNR reserves and the associated reinsurers' share of claims IBNR reserves are a subset of "claims outstanding" within technical provisions, and they represent significant accounting estimates in the financial statements. As at 31 December 2020, the value of the Group's claims IBNR reserves and the associated reinsurers' share of IBNR reserves is $761.1 million and $307.0 million respectively. These estimates are included within technical provisions - gross claims outstanding of $1,408.9 million and the reinsurers' share of claims outstanding of $625.9 million respectively as set out in Note 21. As at 31 December 2020, the value of the Company's claims IBNR reserves and the associated reinsurers' share of IBNR reserves is $544.8 million and $127.7 million respectively. These estimates are included within technical provisions - gross claims outstanding of $954.85 million and the reinsurers' share of claims outstanding of $274.1 million respectively as set out in Note 9. The methodologies and assumptions used by the directors to estimate the Group and Company's claims IBNR reserves and the associated reinsurers' share of claims IBNR reserves involves a significant degree of judgement. Key areas of focus in our audit of the Group and Company's claims IBNR reserves and the associated reinsurers' share 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. • The risk of inappropriate assumptions used in determining current year estimates. 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 and recognising adjustments 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 by the directors. We have also agreed underlying source data back to supporting documentation. In performing our detailed audit work over the valuation of claims IBNR reserves and the associated reinsurer's share of claims IBNR reserves we used actuarial specialists. Our procedures included: • Developing independent point estimates for classes of business considered to be higher risk, particularly focusing on the largest and most uncertain estimates, as at 31 August 2020 and performing roll-forward procedures to 31 December 2020; • Testing, for certain other classes of business, the methodology and assumptions used by the directors to derive the claims IBNR reserve estimates and assessing whether these produced reasonable estimates based on underlying facts and circumstances; • Performing analytical audit procedures over the remaining classes of business to ascertain the reasonableness of the claims IBNR reserves; • Applying gross to net ratios against the estimated claims IBNR reserves to calculate the estimated reinsurers' share of claims IBNR reserves. • Comparing our estimates, based on the procedures performed above, to those booked by management. 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.

Key audit matter	How our audit addressed the key audit matter
Impact of COVID-19 (Group and parent) The impacts of the global pandemic due to Covid-19 continue to cause significant social and economic disruption up to the date of reporting. In our audit we have identified the following key impacts of COVID-19:	
Ability of the entity to continue as a going concern There are a number of potential matters in relation to COVID-19 which could impact on the going concern status of the Group and Company. The Directors have considered the ability of the Group and Company to remain solvent with sufficient liquidity to meet future obligations. The Directors have also considered its requirements in respect of regulatory capital under Solvency II and the potential operational impacts on the business arising from remote working. The Directors' have concluded that the Group and the Company are both going concerns.	In assessing management's consideration of the impact of COVID-19 on the Group and Company we have performed the following procedures: • Obtained management's updated going concern assessment and challenged the completeness of the analysis adopted and material assumptions made using our knowledge of the Group and Company's business performance, review of regulatory correspondence and obtaining further corroborating evidence; • Considered management's assessment of the regulatory Solvency coverage and liquidity in management's future forecast; • Considered information obtained during the course of the audit and publicly available market information to identify any evidence that would contradict management's assessment of going concern (including the impacts of COVID-19); and • Enquired and understood the actions taken by management to mitigate the impacts of COVID-19, including review of Risk and Capital Management Committee minutes and attendance of all Audit Committees. We agree with the Director's conclusions in respect of going concern.
Impact on Estimation Uncertainty in the Financial Statements The pandemic has increased the level of estimation uncertainty in the financial statements. The Directors have therefore considered how Covid-19 has impacted the key estimates that determine the valuation of material balances, particularly the Valuation of claims outstanding reserves.	In assessing management's consideration of estimation uncertainty we have performed the following procedures: • Considered whether there have been any impacts from remote working on the design and operating effectiveness of key controls impacting the preparation of financial statement information; • Challenged management's judgements in the valuation of non-life insurance contract liabilities in relation to COVID-19, specifically the treatment of the Event Cancellation; and • Challenged the judgements applied by management to determine the insurance contract liabilities, in light of the emerging COVID-19 experience and by comparing these relative to the Group and Company's industry peers. We have audited the balances impacted by estimation uncertainty and believe the methodology and assumptions used by management to be reasonable.
Qualitative Disclosures in the Annual Report and Financial Statements In addition, the Directors have considered the qualitative disclosures included in the Annual Report and Financial Statements in respect of COVID-19 and the impact that the pandemic has had, and continues to have, on the Group and Company	In considering the disclosures made by management in the financial statements we have performed the following procedures: • Reviewed the appropriateness of disclosures within the Annual report and Financial Statements with respect to COVID-19 and, where relevant, considered the consistency of the other information to the audited financial statements and the information obtained in the audit. Based on the procedures performed and evidence obtained, we consider the disclosure of COVID-19 in the financial statements to be appropriate.

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

How we tailored the audit scope

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

Using the outputs from our risk assessment, along with our understanding of the Group, we scoped our audit based on the significance of the results and financial position of individual components relevant to the Group result and financial position. In doing so, we also considered qualitative factors and ensured we had obtained sufficient coverage across all financial statement line items in the consolidated financial statements. Our scoping provided us with coverage of over 95% of Group profit before tax, and over 95% of Group total assets respectively.

Based on the outputs of our audit scoping exercise, we identified the Group's components to be the Company and its subsidiaries. We performed a full scope audit of the Company and its insurance subsidiary undertaking, Tokio Marine Europe S.A, as they had the most significant impact on the consolidated financial statements.

For the remaining components, we identified certain account balances which were considered to be significant in size or audit risk and scoped the audit to include detailed testing of these account balances.

As the Group engagement team, we determined the level of involvement required by other auditors to be able to conclude whether sufficient and appropriate audit evidence had been obtained as a basis for our opinion on the financial statements as a whole. We exercised oversight over the work performed by other auditors by maintaining regular and timely communication, including performing video-calls, discussions, review of working papers and written communications as appropriate.

Materiality

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

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

	Financial statements - Group	Financial statements - Company
Overall materiality	US$8.2million (2019: US$6.8million).	US$6.9 million (2019: US$6.2 million).
How we determined it	1% increase of combined operating ratio excluding other technical income ("COR")	1% increase of combined operating ratio excluding other technical income ("COR")
Rationale for benchmark applied	In determining materiality, we considered financial metrics which we believe relevant to the primary users of the Group and Company's financial statements. We concluded that the COR was the most relevant benchmark as it provides an indicator of relative performance and is a focus of the directors.	

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was $7,500,000. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% of overall materiality, amounting to US$6.2 million for the Group financial statements and US$5.2 million for the Company financial statements.

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

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above $0.4 million (Group audit) (2019: $0.3 million) and $0.3 million (Company audit) (2019: $0.3 million) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

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

- Obtaining and assessing the reasonableness of the Directors' assessment, taking into consideration the Group and Company's year-end investment portfolio and its exposure to certain types of assets, cash flows and liquidity analysis and operational resilience;
- Considering management's assessment of the regulatory Solvency coverage and liquidity position;
- Considering information obtained during the course of the audit and publicly available market information to identify any evidence that would contradict management's assessment of going concern (including the impacts of COVID-19); and
- Inquiring and auditing actions taken by management to mitigate the impacts of COVID-19, including review of Risk and Capital Management Committee minutes and attendance of all Audit Committees.

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

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

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

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

Reporting on other information

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

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

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

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the year ended 31 December 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit Committee, we were appointed by the directors on 14 July 2005 to audit the financial statements for the year ended 31 December 2005 and subsequent financial periods. The period of total uninterrupted engagement is 16 years, covering the years ended 31 December 2005 to 31 December 2020. 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.

Philip Watson
(Senior Statutory Auditor)
for and on behalf of
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors

London
8 April 2021

Financial statements

Financial Statements

Consolidated Profit and Loss Account

For the year ended 31 December 2020

Technical account – general business	Note	2020 $'000	2019 $'000
Earned premiums, net of reinsurance			
Gross premiums written	6	1,195,412	1,018,662
Outward reinsurance premiums		(417,241)	(399,635)
Net premiums written		**778,171**	**619,027**
Change in the gross provision for unearned premiums	21	(115,315)	(79,111)
Change in the provision for unearned premiums, reinsurers' share	21	42,931	45,946
Change in the net provision for unearned premiums		**(72,384)**	**(33,165)**
Earned premiums, net of reinsurance		**705,787**	**585,862**
Allocated investment return transferred from the non-technical account	7	26,265	28,126
Other technical income	11	11,918	5,994
Total technical income		**743,970**	**619,982**
Claims incurred, net of reinsurance			
Claims paid:			
– gross amount		(416,738)	(368,699)
– reinsurers' share		192,157	86,315
Net claims paid		**(224,581)**	**(282,384)**
Change in the provision for claims:			
– gross amount	21	(227,355)	(174,092)
– reinsurers' share	21	125,491	169,262
Change in the net provision for claims		**(101,864)**	**(4,830)**
Claims incurred, net of reinsurance		**(326,445)**	**(287,214)**
Net operating expenses	8	(267,150)	(208,690)
Total technical charges		**(593,595)**	**(495,904)**
Balance on the technical account for general business	6	**150,375**	**124,078**

All results derive from continuing operations.

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

For the year ended 31 December 2020

Non-technical account	Note	2020 $'000	2019 $'000
Balance on the technical account for general business		150,375	124,078
Investment Income:			
Income from other financial investments	7	27,506	29,132
Gains on the realisation of investments	7	972	574
		28,478	29,706
Investment expenses and charges		(2,213)	(1,580)
Allocated investment return transferred to the general business technical account		(26,265)	(28,126)
Unrealised gains on financial investments		49,905	41,693
Other income	7	187	1,844
		50,092	43,537
Net foreign exchange losses		(5,274)	(8,057)
Other charges	10	(18,313)	(18,229)
Profit on ordinary activities before tax		176,880	141,329
Tax on profit on ordinary activities	12	(34,132)	(36,023)
Profit for the financial year		**142,748**	**105,306**

Consolidated Statement of Other Comprehensive Income

For the year ended 31 December 2020

	Note	2020 $'000	2019 $'000
Profit for the financial year		142,748	105,306
Currency translation differences		1,332	490
Total consolidated comprehensive income		**144,080**	**105,796**

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

Consolidated Balance Sheet

As at 31 December 2020

Assets	Note	2020 $'000	2019 $'000
Intangible assets			
Goodwill	13	79,000	81,204
Other intangible assets	13	59,752	34,700
		138,752	115,904
Investments			
Land and buildings		239	239
Other financial investments	15	1,517,455	1,343,533
		1,517,694	1,343,772
Reinsurers' share of technical provisions			
Provision for unearned premiums	21	164,038	114,832
Claims outstanding	21	625,898	466,344
		789,936	581,176
Debtors			
Debtors arising out of direct insurance operations			
- Policyholders		40,095	37,642
- Intermediaries		245,673	175,388
Debtors arising out of reinsurance operations		217,756	166,089
Other debtors	17	37,989	55,135
		541,513	434,254
Other assets			
Tangible assets	18	6,677	3,505
Deposits from third parties		48,522	53,467
Cash at bank and in hand		287,283	177,455
		342,482	234,427
Prepayments and accrued income			
Accrued interest and rent		9,658	9,802
Deferred acquisition costs	21	102,264	77,517
		111,922	87,319
Total assets		**3,442,299**	**2,796,852**

Consolidated Balance Sheet

As at 31 December 2020

Liabilities	Note	2019 $'000	2018 $'000
Capital and reserves			
Called up share capital	19	233,242	233,242
Share premium		19,115	19,115
Merger reserve		(19,115)	(19,115)
Other reserve		(107)	(1,439)
Profit and loss account		772,251	629,503
Total shareholder's equity		**1,005,386**	**861,306**
Technical provisions			
Provision for unearned premiums	21	558,907	424,012
Claims outstanding	21	1,408,952	1,106,565
		1,967,859	1,530,577
Creditors - amounts due within one year			
Creditors arising out of direct insurance operations		40,500	62,564
Creditors arising out of reinsurance operations		214,670	158,246
Other creditors including taxation and social security	20	49,387	48,933
Deposits from third parties		48,587	53,540
		353,145	323,283
Accruals and deferred income		115,910	81,686
Total liabilities		**3,442,299**	**2,796,852**

In accordance with the exemption permitted under section 408 of the Companies Act 2006, the Company Profit and Loss Account, and Company Statement of Other Comprehensive Income are not presented as part of these financial statements. The Company's profit after taxation for the year was $139.1 million (2019: $111.2 million profit).

The financial statements on pages 62 to 116 were approved by the Board of Directors and were signed on its behalf by

K L Letsinger
Director

8 April 2021

Company registration number 1575839

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

Financial Statements

Consolidated Statement of Changes in Shareholders' Equity

For the year ended 31 December 2020

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

Capital and reserves	Called up share capital $'000	Share premium $'000	Profit and loss account $'000	Currency Exchange reserve $'000	Merger reserve $'000	Total equity $'000
At 1 January 2019	233,242	19,115	524,197	(1,929)	(19,115)	755,510
Profit for the financial year	-	-	105,306	-	-	105,306
Other Comprehensive Income	-	-	-	490	-	490
At 31 December 2019	233,242	19,115	629,503	(1,439)	(19,115)	861,306

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2020

	Note	2020 $'000	2019 $'000
Cash inflow from operating activities	22	199,166	104,529
Taxation paid		(44,566)	(26,774)
Net cash generated from operating activities		154,600	77,755
Cash flow from investing activities			
Acquisition of subsidiary (net of cash and assets acquired)		(41,306)	-
Purchase of tangible assets		(3,466)	(535)
Purchase and development of intangible assets		-	(326)
		(44,772)	(861)
Net increase in cash at bank and in hand		109,828	76,894
Cash and cash equivalents at the beginning of the year		177,455	100,561
Cash and cash equivalents at the end of the year		287,283	177,455
Cash and cash equivalents consist of:			
Cash at bank and in hand		287,283	177,455
		287,283	177,455

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

Notes to the consolidated financial statements

1. General information

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

2. Basis of preparation

The consolidated financial statements of HCCII have been prepared in accordance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, ''The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland'' (''FRS 102''), Financial Reporting Standard 103, "Insurance Contracts" (FRS 103) and the Companies Act 2006. The Group financial statements have been prepared in compliance with the provisions of the Large and Medium-sized Companies and Groups (Financial Statements and Reports) Regulations relating to insurance groups.

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

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

3. Summary of significant accounting policies

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

A. Basis of consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiary undertakings up to 31 December 2020.

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

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

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

B. Foreign currency

The Group's functional and presentation currency is US Dollars. For subsidiaries whose functional currency is US Dollars, foreign currency transactions are recorded using the spot exchange rates at the dates of the transactions into the functional currency. At each period end, foreign currency monetary assets and liabilities are revalued using the closing rate prevailing at that time. For this purpose, all assets and liabilities arising from Insurance contracts (including Unearned premiums and Deferred acquisition costs) are monetary items. Differences arising on the revaluation of foreign currency amounts to the functional currency are recognised in the Non-technical Profit and Loss Account.

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

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

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

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

C. Insurance contracts

i. Classification of insurance

The Group issues insurance contracts that transfer significant insurance risk.

ii. Insurance contracts

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

a. Premiums written

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

Notes to the consolidated financial statements

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

c. Acquisition costs
Acquisition costs, which represent commission and other related expenses incurred in respect of issuing Insurance contracts, are deferred over the period in which the related premiums are earned.

d. Claims incurred
Claims incurred comprise 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 ('IBNR') and related loss adjustment expenses, together with any other adjustments to claims for previous years. Where applicable, deductions are made for estimated salvage and other recoveries.

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

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

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

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

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

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

Credit and Surety, London Market and Other Business

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

Professional Risks and Financial Lines

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

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

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

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

D. Taxation

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

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

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

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

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

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

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

F. Business combinations and goodwill

Business combinations are accounted for by applying the purchase method.

Business combinations

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

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

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

Goodwill

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

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

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G. Intangible assets

Intangible assets representing broker relationships and trade brand names are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated, using a straight-line method, to allocate the depreciable amount of the assets to their residual values over their estimated useful lives which are 15 years. Amortisation and any impairment expense are charged to other charges in the Non-technical account. Intangible assets' residual values and useful lives are reviewed, and adjusted, if appropriate, at the end of each reporting period. The effect of any change is accounted for prospectively.

H. Land and buildings

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

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

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

I. Tangible assets

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

Depreciation

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

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

Derecognition

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

J. Impairment of non-financial assets

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

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

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

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

K. Investments in subsidiary undertakings - Company

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

L. Cash and cash equivalents

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

M. Financial instruments

The Group has adopted sections 11 and 12 of FRS 102 relating to fair value hierarchy disclosures and applied the recognition and measurement provisions of IAS 39 (as adopted for use in the EU) and the disclosure requirements of FRS 102 in respect of financial instruments.

N. Financial assets

The Group classifies its financial assets into the following categories:

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

Management determines the classification of its investments at initial recognition.

Fair value through profit or loss

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

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

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

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

Loans and receivables

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

O. Impairment of financial assets

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

- significant financial difficulty of the issuer or debtor;
- a breach of contract such as a default or delinquency in payments;
- it 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 Group.

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

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

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

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

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

P. Investment return

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

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

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

Q. Share capital

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

R. Distributions to equity holders

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

S. Share premium

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

4. Critical accounting judgements and estimation uncertainty

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

Significant estimate assumptions in applying the accounting policies

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

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

The estimate of the ultimate liability arising from claims made under insurance contracts is the Group's most critical accounting estimate. The carrying amount of the claims outstanding, net of reinsurance is $783.1m (2019: $640.2m). There are many sources of uncertainty that need to be considered in the estimate of the liability that the Group will ultimately pay for such claims. The level of provision has been set on the basis of the information that is currently available, including potential outstanding loss advices, experience of development of similar claims, historical experience, case law and legislative and judicial actions.

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

II. Fair value of financial instruments

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

If quoted prices are unavailable, observable prices for recent arm's length transactions for an identical asset are used to determine its fair value and classified as level 2. The carrying value of these level 2 instruments is $1,376.3m (2019: $1,256.8m), see Note 16 for pricing basis. The Group uses its judgement to select a variety of methods and to make assumptions that are mainly based on market conditions existing at the end of each reporting period.

III. Estimated impairment of goodwill and other intangible assets

In accordance with the accounting policy for Goodwill (see note 3f) and Other intangibles assets (see note 3g) are capitalised at cost and amortised over useful economic life on a straight-line basis. On an annual basis the directors consider whether there are any events or changes in circumstances which indicate that the carrying value of goodwill and intangibles may not be recoverable. The carrying value of goodwill and other intangible assets is $79.0m (2019: $81.2m) and $59.8m (2019: $34.7m), respectively. Any decrease in value determined would affect the Group's financial position.

IV. Pipeline premium

The Group makes an estimate of premiums written on a policy by policy basis. Pipeline premium is the difference between estimated premium and booked premium. For the majority of lines written, premium is adjusted to equal booked premiums two years post expiry. Pipeline premium is recorded within gross written premium and an assessment is made of the related unearned premium provision and an estimate of claims incurred but not reported in respect of the earned element. The pipeline premium included within net written premium is $171.4m (2019: $152.4m).

5. Risk management

The Group has identified the risks arising from its activities and has established policies and procedures to manage these risks in accordance with its risk appetite. The Group maintains a risk register and categorises its risks into six areas: Insurance; Strategic, Regulatory and Group; Market; Operational; Credit; Liquidity; and the newly added Pandemic risk. The sections below outline the Group's risk appetite and explain how it defines and manages each category of risk. The disclosures set out in this note have been presented at the Group level. The Company disclosures are included within the Notes to the Company financial statements.

5.1 Insurance risk

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

i. Underwriting risk

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

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

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

The Group's underwriting strategy is to seek a diverse and balanced portfolio of risks in order to limit the variability of outcomes. This

Notes to the consolidated financial statements

is achieved by accepting a spread of business over time, segmented between different products, geographies and sizes.

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

These authority limits are enforced through a comprehensive sign-off process for underwriting transactions including an escalation process for all risks exceeding individual underwriters' authority limits. Exception reports are also run regularly to monitor compliance and a rigorous peer and external review process 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 Group's underwriting strategy by line of business and sets out the classes of business, the territories and the industry sectors in which business is to be written. The Plan is approved by the directors and monitored by the underwriting committees on a monthly basis.

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

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

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

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

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

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

ii. Reinsurance risk

Reinsurance risk arises where reinsurance contracts:

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

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

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

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

iii. Claims management risk

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

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

iv. Reserving risk

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

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

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

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

Loss development triangles – GROSS Ultimate claims and cumulative payments	Accident year 2012 $'000	2013 $'000	2014 $'000	2015 $'000	2016 $'000	2017 $'000	2018 $'000	2019 $'000	2020 $'000	Total $'000
End of reporting year	164,229	201,793	170,963	197,940	274,036	270,278	298,870	529,922	604,411	
- one year later	130,101	213,848	177,598	231,379	275,802	268,633	390,589	612,256		
- two years later	138,652	213,981	149,390	252,791	269,335	285,747	391,458			
- three years later	142,753	194,724	149,168	242,483	332,470	314,450				
- four years later	153,402	182,732	147,580	247,058	326,532					
- five years later	145,199	181,970	164,749	226,397						
- six years later	143,534	174,485	163,042							
- seven years later	143,237	170,225								
- eight years later	143,140									
Current estimate of ultimate claims	143,140	170,225	163,042	226,397	326,532	314,450	391,458	612,256	604,411	
Cumulative payments to date	137,958	155,899	129,319	161,521	239,177	207,741	208,112	284,573	140,995	
Liability recognised in the balance sheet	5,182	14,326	33,723	64,876	87,355	106,709	183,346	327,683	463,416	1,286,616
Provision in respect of previous years										122,336
Total provision included in the balance sheet										**1,408,952**

Loss development triangles – NET Ultimate claims and cumulative payments	Accident year 2012 $'000	2013 $'000	2014 $'000	2015 $'000	2016 $'000	2017 $'000	2018 $'000	2019 $'000	2020 $'000	Total $'000
End of reporting year	128,178	172,558	130,183	154,999	201,394	208,279	228,162	301,882	310,682	
- one year later	125,121	168,148	127,274	169,000	198,808	217,049	275,739	323,559		
- two years later	111,788	159,706	104,993	167,130	190,038	215,920	282,286			
- three years later	108,529	153,248	109,064	161,518	227,698	236,534				
- four years later	105,425	149,134	109,712	166,616	223,830					
- five years later	114,817	145,541	116,836	157,401						
- six years later	112,163	138,393	117,343							
- seven years later	110,533	139,910								
- eight years later	116,230									
Current estimate of ultimate claims	116,230	139,910	117,343	157,401	223,830	236,534	282,286	323,559	310,682	
Cumulative payments to date	103,825	120,888	98,344	126,384	176,493	171,405	178,671	135,546	60,834	
Liability recognised in the balance sheet	12,405	19,022	18,999	31,017	47,337	65,129	103,615	188,013	249,848	735,838
Provision in respect of previous years										47,671
Total provision included in the balance sheet										**783,054**

5.2 Strategic, regulatory and group risk

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

i. Strategic risk

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

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

ii. Regulatory risk

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

Capital management

The Group estimates its economic capital requirements using an internal model (the Economic Capital Model ('ECM')) which, the directors believe, is the most appropriate tool to determine the Group's medium-term capital needs. Additionally, EIOPA's Solvency II Standard Formula Solvency Capital Requirement ('SF SCR') is used for the measure for required regulatory capital for the Company (HCCI solo). 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 carried an amount in excess of the regulatory minimum. At 31 December 2020 the Company Solvency II available assets are 177% of the regulatory minimum capital requirement and 529% of the SF SCR.

The Group's capital is monitored and managed at the Tokio Marine HCC Insurance Holdings (International) Limited level, the immediate holding company of the Group.

iii. Group risk

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

Contagion

Contagion risk is the risk arising from actions of one part of a group which could adversely affect any other part of the group. The Group is a member of the TM 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 TM Group to ensure all relevant entities are well informed and working to common goals.

Reputation

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

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

5.3 Market risk

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

The investment strategy is developed by reference to an investment risk budget, which is reviewed annually by the directors as part of the overall risk budgeting framework of the business. In 2020, 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 Group's excess capital (above the regulatory minimum). This was the result of a complete investment strategy review carried out by the Group'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 2020 is consistent with 2019.

Investment strategy is consistent with this risk appetite and investment risk is monitored on an ongoing basis. The internal model includes an asset risk module, which uses an Economic Scenario Generator ('ESG') to create multiple simulations of financial conditions, to support stochastic analysis of investment risk. Internal model output is used to assess potential investment downsides, at different

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confidence levels, including '1 in 200' year event, which reflects Solvency II modelling requirements. In addition, the Group undertakes regular scenario tests (which look at shock events such as yield curve shifts, credit spread widening, or the repeat of historic events) to assess the impact of potential investment losses.

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

i. Foreign exchange risk

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

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

FX risk exposure 31 December 2020	AUD $ $'000	CAD $ $'000	CHF Fr $'000	EUR € $'000	GBP £ $'000	Subtotal $'000	USD $ $'000	Total $'000
Total assets	76,700	7,991	43,736	917,465	676,118	**1,722,010**	1,720,288	**3,442,299**
Total liabilities	**(91,767)**	**(6,531)**	**(40,307)**	**(876,651)**	**(723,344)**	**(1,738,600)**	**(698,314)**	**(2,436,913)**
Net assets	(15,067)	1,461	3,429	40,814	(47,226)	(16,588)	1,021,974	1,005,386
Net profit/(loss)	**(10,625)**	**(557)**	**4,394**	**(1,108)**	**23,424**	**15,528**	**127,220**	**142,748**

FX risk exposure 31 December 2019	AUD $ $'000	CAD $ $'000	CHF Fr $'000	EUR € $'000	GBP £ $'000	Subtotal $'000	USD $ $'000	Total $'000
Total assets	45,745	2,706	39,724	761,678	544,342	**1,394,195**	1,402,657	**2,796,852**
Total liabilities	**(50,762)**	**(841)**	**(40,688)**	**(726,151)**	**(606,308)**	**(1,424,750)**	**(510,796)**	**(1,935,546)**
Net assets	(5,017)	1,865	(964)	35,527	(61,966)	(30,555)	891,861	861,306
Net profit/(loss)	**16,175**	**(19)**	**(2,878)**	**83,962**	**(71,921)**	**25,319**	**79,987**	**105,306**

Sensitivity analysis

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

FX risk exposure – sensitivity	Impact on profit after tax		Impact on net assets	
Change in exchange rate of Canadian Dollar, Australian Dollar, Swiss Franc, Euro and Sterling, relative to US Dollar	2020 $'000	2019 $'000	2020 $'000	2019 $'000
US Dollar weakens 30% against other currencies	(3,773)	6,153	(4,976)	(9,167)
US Dollar weakens 20% against other currencies	(2,516)	4,102	(3,318)	(6,111)
US Dollar weakens 10% against other currencies	(1,258)	2,051	(1,659)	(3,056)
US Dollar strengthens 10% against other currencies	1,258	(2,051)	1,659	3,056
US Dollar strengthens 20% against other currencies	2,516	(4,102)	3,318	6,111
US Dollar strengthens 30% against other currencies	3,773	(6,153)	4,976	9,167

ii. Interest rate risk

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

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

The Group's investment strategy reflects the nature of the Group's liabilities, and the combined market risk of investment assets and estimated liabilities is monitored and managed within specified limits.

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

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

Investments and cash – duration 31 December 2019	<1 yr $'000	1-2 yrs $'000	2-3 yrs $'000	3-4 yrs $'000	4-5 yrs $'000	5-10 yrs $'000	>10 yrs $'000	N/A $'000	Total $'000
Variable yield securities	39,652	-	-	-	-	-	-	-	39,652
Debt securities	107,207	158,454	234,582	213,080	133,890	254,912	154,627	-	1,256,752
Other investments	-	-	-	-	-	-	-	47,129	47,129
Total other financial investments	**146,859**	**158,454**	**234,582**	**213,080**	**133,890**	**254,912**	**154,627**	**47,129**	**1,343,533**
Deposits from third parties	53,467	-	-	-	-	-	-	-	53,467
Cash at bank	177,455	-	-	-	-	-	-	-	177,455
Total	**377,781**	**158,454**	**234,582**	**213,080**	**133,890**	**254,912**	**154,627**	**47,129**	**1,574,455**

Sensitivity analysis

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

Investments and cash – interest rate sensitivity Shift in yield (basis points)	Impact on profit after tax 2020 $'000	2019 $'000	Impact on net assets 2020 $'000	2019 $'000
100 basis point increase	(64,094)	(61,009)	(64,094)	(61,009)
50 basis point increase	(31,835)	(30,461)	(31,835)	(30,461)
50 basis point decrease	26,643	29,507	26,643	29,507
100 basis point decrease	45,281	58,084	45,281	58,084

5.4 Operational risk

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

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

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

Addressing conduct risk has always been treated as a priority irrespective of the regulatory emphasis on the selling of financial products, including insurance products, to consumers. The Group's primary objective is that all policyholders should receive fair treatment throughout the product lifecycle, which requires the effective management of conduct risk.

However, conduct risk is not limited to the fair treatment of customers and the Group's Conduct Risk Policy broadly defines conduct risk as "…the risk that detriment is caused to the Group, our customers, clients or counterparties because of the inappropriate execution of our business activities."

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

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

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

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

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

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

The Group has developed processes to formally examine all reinsurers before entering into new business arrangements. New reinsurers are approved by the reinsurance approval group, which also reviews arrangements with all existing reinsurers at least annually. Vulnerable or slow-paying reinsurers are examined more frequently and collateral is taken to mitigate the Group's credit risk exposure. As at 31 December 2020 US$ 522k of collateral was held by the Group. To assist in the understanding of credit risks, A.M. Best, Moody's and Standard & Poor's ('S&P') ratings are used. The Group's concentrations of credit risk have been categorised by these ratings in the following table.

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

Investments, reinsurance assets and cash – credit ratings 31 December 2019	AAA $'000	AA $'000	A $'000	BBB $'000	BB $'000	Not rated $'000	Total $'000
Variable yield securities	39,652	-	-	-	-	-	39,652
Debt securities	76,020	587,781	438,237	151,924	2,790	-	1,256,752
Other investments	-	-	-	-	-	47,129	47,129
Total other financial investments	**115,672**	**587,781**	**438,237**	**151,924**	**2,790**	**47,129**	**1,343,533**
Reinsurers' share of technical provisions	-	178,626	397,012	2,636	2,902	-	581,176
Debtors arising out of reinsurance operations	-	51,990	112,553	179	1,367	-	166,089
Cash at bank	177,455	-	-	-	-	-	177,455
Total	**293,127**	**818,397**	**947,802**	**154,739**	**7,059**	**47,129**	**2,268,253**

The Group's largest counterparty exposure is $221.5m of US Government securities (2019: $213.2m).

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

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

Financial assets – ageing 31 December 2019	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	466,344	-	-	-	-	466,344
Insurance debtors	141,084	39,075	23,311	9,402	158	213,030
Reinsurance debtors	150,720	7,289	5,274	2,270	536	166,089
Other debtors	55,135	-	-	-	-	55,135
Total	**813,283**	**46,364**	**28,585**	**11,672**	**694**	**900,598**

5.6 Liquidity risk

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

The Group's approach is to manage its liquidity position so that it can reasonably survive a significant individual or market loss event (details of the Group's management of its exposure to loss scenarios are provided in Note 5.1.(i). This means that the Group maintains sufficient liquid assets, or assets that can be readily converted into liquid assets at short notice, to meet expected cash flow requirements. The Group can also draw on group funds to bridge short-term cash flow requirements. The following table is an analysis of the net contractual cash flows based on all the liabilities held at 31 December 2020 and 2019:

Financial liabilities – projected cash flows 31 December 2020	Within 1yr $'000	1-3 years $'000	3-5 years $'000	>5 years $'000	Total $'000
Net claims outstanding	233,143	267,250	133,492	149,170	783,055
Creditors from direct insurance operations	40,500	-	-	-	40,500
Creditors from reinsurance operations	214,670	-	-	-	214,670
Other creditors	49,387	-	-	-	49,387
Total	**537,700**	**267,250**	**133,492**	**149,170**	**1,087,612**

Financial liabilities – projected cash flows 31 December 2019	Within 1yr $'000	1-3 years $'000	3-5 years $'000	>5 years $'000	Total $'000
Net claims outstanding	173,429	210,207	121,647	134,938	640,221
Creditors from direct insurance operations	62,564	-	-	-	62,564
Creditors from reinsurance operations	158,246	-	-	-	158,246
Other creditors	48,933	-	-	-	48,933
Total	**443,172**	**210,207**	**121,647**	**134,938**	**909,964**

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

Investments and cash – maturity 31 December 2020	Within 1yr $'000	1-3 years $'000	3-5 years $'000	>5 years $'000	N/A $'000	Total $'000
Variable yield securities	82,533	-	-	-	-	82,533
Debt securities	101,769	215,640	208,245	850,602	-	1,376,256
Other investments	-	-	-	-	58,666	58,666
Total other financial investments	**184,302**	**215,640**	**208,245**	**850,602**	**58,666**	**1,517,455**
Cash at bank	287,283	-	-	-	-	287,283
Total	**471,585**	**215,640**	**208,245**	**850,602**	**58,666**	**1,804,738**

Investments and cash – maturity 31 December 2019	Within 1yr $'000	1-3 years $'000	3-5 years $'000	>5 years $'000	N/A $'000	Total $'000
Variable yield securities	39,652	-	-	-	-	39,652
Debt securities	49,754	237,310	188,830	780,858	-	1,256,752
Other investments	-	-	-	-	47,129	47,129
Total other financial investments	**89,406**	**237,310**	**188,830**	**780,858**	**47,129**	**1,343,533**
Cash at bank	177,455	-	-	-	-	177,455
Total	**266,861**	**237,310**	**188,830**	**780,858**	**47,129**	**1,520,988**

5.7 Pandemic risk

The Group's strong risk and governance frameworks remain in place and continue to operate effectively in the new pandemic environment. Part of the adaptation to that new environment has been the development of a pandemic risk register to sit alongside the existing frameworks and which will be incorporated into reporting to the Risk & Capital Management Committee. The table below illustrates the principal potential risks for the Group's business and operations by risk area, that were identified as a result of the pandemic risk review. The overall strategy of the Group includes some fundamental aspects which will mitigate the potential impacts of these Covid-19 risks and the various mitigations in place to reduce the impact of these risks are also described in the table below.

Risk area	Principal potential pandemic risks	Mitigating actions/factors
Insurance	• Increased claims activity. • Reinsurance exhaustion. • Insufficient reserves held. • Reduction in future business. • Inability to purchase future reinsurance.	• Contract-by-contract review of direct and indirect potential exposures. • Consideration of the impact of the global economic environment on the portfolios. • Daily underwriter briefings ensure senior management is kept abreast of the rapidly developing market conditions, enabling the business to operate proactively. • Comprehensive outwards reinsurance purchased from high quality reinsurers with whom the Group has long-standing trading relationships. • Several unlimited Quota Share treaties in place (internal and with third parties) for a number of lines of business. • Partnering with reinsurers as claims develop. • Reserving policy produces accurate and reliable estimates that are consistent over time and across classes of business.
Strategic, regulatory and Group	• Inability to implement strategy. • Inability to meet future business plan targets. • Failure of other TM Group companies.	• Diversified and well-balanced portfolio of business comprised of a number of low correlating lines of business. • Comprehensive outwards reinsurance purchased from high quality reinsurers with whom the Group has long-standing trading relationships. • Maintain good liquidity. • Reserving policy produces accurate and reliable estimates that are consistent over time and across classes of business. • Regular monitoring of regulatory capital and maintenance of a high excess over regulatory capital. • Each TM Group company independently capitalised.
Market	• Investment market volatility. • Asset /Liability mismatch due to different claims/premium profiles.	• Investment in secure and readily realisable assets.
Operational	• Inability of the business to fully work remotely. • Employee welfare/sickness issues. • IT security/fraud issues. • Outsourcing arrangements do not function as expected.	• IT infrastructure and software has enabled a smooth transition to remote working without substantial disruption. • Early instigation of the established business continuity protocols, which included specific pandemic responses facilitating a successful quick transition of the Group's operations from primarily office-based to almost exclusively remote-based. • Each material outsource arrangement has regular audits confirming the appropriateness of the supplier's own business continuity arrangements, allied with closer interaction with the suppliers during the pandemic, to ensure early identification of any potential issues. • Additional monitoring of third-party outsourcing where considered appropriate.
Credit	• Reinsurance / premium or investment counterparties unable to make payments.	• Comprehensive outwards reinsurance purchased from high quality reinsurers with whom the Group has long-standing trading relationships. • Proactive claims mitigants in place with reinsurer involvement. • Increased cash flow and reinsurance credit monitoring.
Liquidity	• Disinvesting from assets due to increase in claim payments, delay in reinsurance recovery payments and decrease in premium inflows.	• Investment in secure and readily realisable assets.

6. Segmental information

(a) Underwriting result by class of business

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

2019 restated	Gross premiums written $'000	Gross premiums earned $'000	Gross claims incurred $'000	Gross operating expenses $'000	Reinsurance balance $'000	Net underwriting result $'000
Direct insurance						
Accident and health	66,807	58,472	(26,245)	(22,679)	(7,158)	2,390
Marine, aviation and transport	117,094	181,220	(141,233)	(60,193)	24,286	4,080
Fire and other damage to property	63,022	250	(777)	(87)	(228)	(842)
Third party liability	323,792	104,880	(60,646)	(28,862)	(4,737)	10,635
Credit, political risk and suretyship	188,124	60,394	(32,045)	(21,269)	(2,052)	5,028
Other	8,086	307,788	(183,949)	(95,549)	(9,670)	18,620
Total direct	766,925	713,004	(444,895)	(228,639)	441	39,911
Reinsurance acceptances	**251,737**	**226,547**	**(97,896)**	**(73,720)**	**(4,884)**	**50,047**
Total	1,018,662	939,551	(542,791)	(302,359)	(4,443)	89,958
Investment return						28,126
Other technical income						5,994
Technical account						**124,078**

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

The 2019 underwriting result by class of business has been restated to separately present Fire and other damage to property which has previously been included within miscellaneous.

(b) Geographical location of underwriting operations

	Gross premiums written		Profit/(loss) before taxation		Net assets	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000	2020 $'000	2019 $'000
United Kingdom	833,809	664,896	160,627	133,389	844,545	713,836
Rest of Europe	361,603	353,766	16,253	7,940	160,841	147,470
	1,195,412	1,018,662	176,880	141,329	1,005,386	861,306

(c) Geographical location of gross premiums written by destination

	2020 $'000	2019 $'000
United Kingdom	526,427	405,620
Rest of Europe	444,609	404,136
Rest of the World	224,376	208,906
	1,195,412	1,018,662

7. Investment return

The Group recorded $2.2m net foreign exchange gains in revaluation of the non-US Dollars investment portfolio (2019: $2.5m gains). Additionally, foreign exchange losses on revaluation of other non-USD Dollar monetary assets and liabilities totalled $7.4m (2019: $10.6m losses).

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8. Net operating expenses

	2020 $'000	2019 $'000
Commission costs	189,407	171,727
Change in deferred acquisition costs (Note 1)	(19,152)	(10,093)
Reinsurance commissions and profit participation	(88,555)	(93,669)
Earned net acquisition costs	81,700	67,965
Administrative expenses	185,450	140,725
	267,150	208,690

Total commission written during the year in respect of direct insurance was $149.7m (2019: $136.4m).

Staff costs

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

Group	2020 $'000	2019 $'000
Wages and salaries	67,991	54,832
Social security costs	9,428	8,673
Other pension costs	4,458	3,096
	81,877	66,601

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

	2020 Number	2019 Number
Underwriting	327	303
Claims	55	54
Administration and finance	206	174
	588	531

Directors' emoluments

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

	2020 $'000	2019 $'000
Aggregate emoluments	5,731	6,113
Pension contributions	4	38
	5,735	6,151

Pension benefits are accruing to one director (2018: one) under the Group's defined contribution pension scheme.

Highest paid director	2020 $'000	2019 $'000
Aggregate emoluments	2,423	2,527
Pension contributions	-	-
	2,423	2,527

9. Auditors' remuneration

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

	2020 $'000	2019 $'000
Fees payable for auditing of the accounts of the Group and its subsidiaries	1,030	1,113
All audit-related assurance services	180	249
	1,210	1,362

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

10. Other charges

	2020 $'000	2019 $'000
Brexit transition costs	66	3,524
Covid-19 costs	575	-
Corporate oversight costs	4,053	3,292
Service awards	2,956	1,145
Amortisation of goodwill (Note 13)	5,727	6,224
Amortisation of intangibles (Note 13)	4,936	4,044
	18,313	18,229

Brexit transition costs of $0.1m (2019: $3.5m) were incurred mainly as a result of the continued set-up of the company and office in Luxembourg and also IT system and other related consultancy costs. Service awards are mainly payments made to key staff under a long-term incentive scheme.

Notes to the consolidated financial statements

11. Other technical income

	2020 $'000	2019 $'000
Credit limit notification services fee income	4,276	4,375
GCube commission income	3,952	-
Qdos commission and fee income	2,266	1,272
HCCII fee income	689	-
TME fee income	735	347
Other technical income	11,918	5,994

Other technical income comprises $4.3m (2019: $4.4m) for credit limit notification services conducted for Credit policyholders of HCCII by HCC Credit Services Limited. GCube and Qdos commission is third party intermediary income.

12. Tax on profit on ordinary activities

	2020 $'000	2019 $'000
UK Corporation tax at 19.00% (2019:19.00%)		
Current tax on income for the year	42,666	37,998
Tax in respect of prior years	(2,386)	692
Current tax charge for the year	40,280	38,690
Deferred tax - origination and reversal of timing differences	(6,148)	(2,667)
Tax on profit on ordinary activities	34,132	36,023

The tax assessed for the year is higher (2019: higher) than the standard rate of corporation tax in the UK. The differences are explained below:

	2020 $'000	2019 $'000
Profit on ordinary activities before taxation	176,880	141,329
Tax on profit on ordinary activities at standard rate of 19.00% (2018: 19.00%)	33,607	26,853
Expenses not deductible for tax purposes	44	422
Amortisation of goodwill and intangibles	1,783	1,183
Foreign tax	3,955	(1,319)
Effect of tax rate changes	174	797
Tax in respect of prior years	(2,711)	692
Movement in unrecognised deferred tax asset	(3,068)	7,315
Other	(1,011)	80
Tax on profit on ordinary activities	34,132	36,023

13. Goodwill and other intangible assets

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

	Goodwill $'000	Other intangible assets $'000	Total $'000
Cost			
At 1 January 2019	89,668	57,799	147,467
Qdos acquisition adjustment	326	-	326
At 31 December 2019	**89,994**	**57,799**	**147,793**
Accumulated amortisation			
At 1 January 2019	2,566	19,055	21,621
Charge for the year	6,224	4,044	10,268
At 31 December 2019	**8,790**	**23,099**	**31,889**
Net			
At 31 December 2019	**81,204**	**34,700**	**115,904**

In 2020 the Group has recognised Goodwill and intangibles on the acquisition of GCube (see Note 14) amounting to $8.5m and $25.2m, respectively. The carrying values at the end of the year were goodwill of $8.2m and intangibles of $24.2m. In addition, deferred tax has been provided in respect of the intangible which increases that balance by $4.8m to $29.0m at the end of the year.

Goodwill and intangibles arose from the acquisition in 2018 of Qdos Holdings Limited and its subsidiary Qdos Broker and Underwriting Services Limited amounting to $83.3m (2019: $88.3m) and $36.2m (2019: $36.2m), respectively. The amount of goodwill arising from the acquisition of the Qdos group of companies was reduced by $5.0m during 2020, reflecting an adjustment to the deferred consideration element of the final purchase price in June 2020. The carrying values at the end of the year were goodwill of $70.7m (2019: $81.0m) and intangibles of $30.8m (2019: $33.2m).

In addition, Goodwill and intangibles of $1.6m (2019: $1.6m) and $1.6m (2019: $1.6m) arose on the acquisition in 2006 of Manchester Dickson Holdings Limited and its subsidiaries. The carrying values at the end of the year were goodwill of $0.1m (2019: $0.2m) and intangibles of $nil (2019: $1.5m).

Notes to the consolidated financial statements

14. Business combination

On 29 May 2020, the Group acquired 100% of the issued share capital of GCube Underwriting Limited (a renewable energy managing general agent) and its fellow subsidiary Renewable Energy Loss Adjusters Limited (providers of loss adjusting and risk advisory services) collectively known as "GCube" for cash consideration of $42.8m (£35.0m) and incurred $0.2m (£0.1m) of directly attributable costs. The Group has used acquisition accounting to account for the purchase.

The two companies in total contributed income and profit after tax of $7.5m and $1.3m, respectively, to the consolidated profit and loss account for 2020.

The assets and liabilities and goodwill recognised at the acquisition date are shown below.

Assets	Goodwill $'000
Goodwill arising on acquisition	**8,536**
Intangible assets	25,200
Insurance debtors	9,650
Other debtors	239
Cash at bank	1,653
Fiduciary cash deposits	57,600
Fiduciary liabilities	(57,600)
Deferred tax asset	1,496
Total assets	**46,774**
Liabilities	
Contract liabilities	1,511
Other creditors	454
Accrued expenses and staff costs	1,846
Tax creditor	-
Deferred tax liability	4
Total liabilities	**3,815**
Net Assets	**42,979**

The goodwill of $8.5m includes the value of its employees and expected benefits from business growth and diversification and has an expected useful life of 15 years.

Purchase Consideration – cash outflow Outflow of cash to acquire subsidiary net of cash acquired	Goodwill $'000
Cash consideration	(42,769)
Acquisition cost	(210)
Total cost of acquiring subsidiary	(42,979)
Less cash acquired	1,653
Net outflow of cash – investing activities	**(41,326)**

15. Other financial investments

	Fair value		Book cost	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Variable yield securities and units in unit trusts	82,533	39,652	82,533	39,652
Debt securities and other fixed-income securities	1,376,256	1,256,752	1,285,913	1,235,269
Other investments	58,666	47,129	50,810	44,313
	1,517,455	**1,343,533**	**1,419,256**	**1,319,234**

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

16. Fair value estimation

The following table presents the Group's financial investments measured at fair value at 31 December 2020 and 31 December 2019 categorised into levels 1, 2 and 3, reflecting the categorization criteria specified in FRS 102 (s34.22). No liabilities were measured at fair value at 31 December 2020 or at 31 December 2019.

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

Financial investments – pricing basis	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
31 December 2019				
Variable yield securities	-	39,652	-	39,652
Debt securities	-	1,256,752	-	1,256,752
Other investments	-	-	47,129	47,129
Total other financial investments	**-**	**1,296,404**	**47,129**	**1,343,533**

Notes to the consolidated financial statements

FRS 102 defines the disclosure of investments levels as follows:

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

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

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

  The Group's Level 2 investments include its fixed maturity securities, which consist of U.S. government agency securities, foreign government securities, municipal bonds (including those held as restricted securities), corporate debt securities, bank loans, middle market senior loans, foreign debt securities, mortgage-backed and asset-backed securities (including collateralized loan obligations).

  The Group measures fair value for the majority of its Level 2 investments using matrix pricing and observable market data, including benchmark securities or yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, bids, offers, default rates, loss severity and other economic measures. The Group measures fair value for its structured securities using observable market data in cash flow models.

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

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

  No markets for the Group's investments were judged to be inactive at period end. Based on these procedures, the Group did not adjust the prices or quotes provided by its independent pricing services, third party investment managers as of 31 December 2020 or at 31 December 2019.

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

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

17. Other debtors

	2019 $'000	2018 restated $'000
Claims funds	9,553	5,588
Other debtors	6,283	5,805
Amounts owed by group companies	22,153	43,742
	37,989	**55,135**

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

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

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

	Leasehold improvements $'000	Owner occupied land and buildings $'000	Computer equipment $'000	Fixtures, fittings and office equipment $'000	Total $'000
Book cost					
At 1 January 2019	1,806	3,848	273	2,737	8,664
Additions	80	-	59	396	535
At 31 December 2019	**1,886**	**3,848**	**332**	**3,133**	**9,199**
Accumulated depreciation					
At 1 January 2019	1,698	1,050	273	2,289	5,310
Charge for the year	45	87	16	236	384
At 31 December 2019	**1,743**	**1,137**	**289**	**2,525**	**5,694**
Net book value					
31 December 2019	**143**	**2,711**	**43**	**608**	**3,505**

Notes to the consolidated financial statements

19. Called up share capital- Group and Company

Allotted and fully paid ordinary shares	2020 Number of shares	2020 $'000	2019 Number of shares	2018 $'000
Balance brought forward:				
- Ordinary shares of £1 each	96,047,813	163,045	96,047,813	163,045
- Ordinary shares of $1 each	70,197,001	70,197	70,197,001	70,197
Balance carried forward	**166,244,814**	**233,242**	**166,244,814**	**233,242**

The £1 ordinary shares (2019: £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 2020 totalled $nil (2019: $nil).

20. Other creditors including taxation and social security

	2020 $'000	2019 $'000
Corporation tax	12,793	16,420
Net deferred tax liability	9,683	13,189
Other creditors	2,643	2,409
Deferred consideration	-	10,476
Amounts owed to affiliate companies	24,268	6,439
Balance carried forward	**49,387**	**48,933**

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

Net deferred tax liability	2020 $'000	2019 $'000
At 1 January – net deferred tax liability	13,189	15,988
Changes in accelerated capital allowances	(80)	8
Intangible asset	4,686	(648)
Deferred taxation of release of Equalisation provision	(1,984)	(3,047)
Technical reserves	(1,115)	1,340
Short-term timing differences	(1,945)	(452)
Losses carried forward	(3,068)	-
At 31 December – net deferred tax liability	9,683	13,189

The net deferred tax liability consists of the following amounts:

	2020 $'000	2019 $'000
Accelerated capital allowances	145	264
Intangible assets	9,338	4,651
Technical reserves	1,015	2,130
Short-term timing differences	(787)	611
Deferred taxation for release of Equalisation provision	3,040	5,533
Losses carried forward	(3,068)	-
Net deferred tax liability	9,683	13,189

In the Spring Budget 2021, the Government announced that from 1 April 2023 the corporation tax rate would increase to 25% from 19%. As the proposal had not been substantively enacted at the balance sheet date, its effects are not included in these financial statements. However, it is likely that the overall effect of the change, had it been substantively enacted by the balance sheet date, would be to increase the deferred tax liability by $1.5m.

A potential deferred tax asset of $19.3m (2019: $17.7m) in respect of certain unutilised tax losses has not been recognised as there is insufficient evidence that it will be recoverable. This asset would be recovered should sufficient taxable profits be generated in future which would be eligible for relief against the unutilised tax losses.

Notes to the consolidated financial statements

21. Technical provisions - Group

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

(1) Claims outstanding includes claims incurred but not reported ('IBNR') reserves of $761.1m gross of reinsurance and $307.0m reinsurer's share of IBNR reserves (2019: $516.2m gross; $187.3m reinsurer's share).

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

Gross of reinsurance	Provisions for unearned premiums $'000	Claims outstanding (1) $'000	Deferred acquisition costs (2) $'000	Net technical liabilities $'000
At 1 January 2019 restated	334,313	768,391	(68,364)	1,034,340
Movement in provision	79,111	174,092	(10,093)	243,110
Exchange adjustments	10,588	7,287	940	18,815
Part VII transfer at 1 January 2019	-	156,795	-	156,795
At 31 December 2019	**424,012**	**1,106,565**	**(77,517)**	**1,453,060**
Reinsurance				
At 1 January 2019	(69,049)	(240,945)	17,177	(292,817)
Movement in provision	(45,946)	(181,271)	16,428	(210,789)
Exchange adjustments	163	12,902	(1,248)	11,817
Part VII transfer at 1 January 2019	-	(57,030)	-	(57,030)
At 31 December 2019	**(114,832)**	**(466,344)**	**32,357**	**(548,819)**
Net				
At 31 December 2019	**309,180**	**640,221**	**(45,160)**	**904,241**

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

	2020 $'000	2019 $'000
Profit before tax	176,880	141,329
Adjustments for:		
Non-cash movements in profit for the year		
Amortisation of goodwill	5,727	6,224
Amortisation of other intangibles	4,936	4,044
Depreciation of tangible fixed assets	296	384
Realised and unrealised investment (gains)/losses	(50,877)	(42,267)
Other non-cash movement including foreign exchange (gains)/losses	1,332	490
Investment income from participating interests and other financial Investments and income	(27,693)	(30,976)
Changes in operating assets/liabilities		
(Increase)/decrease in debtors, prepayments and accrued income	(121,973)	(186,340)
Increase/(decrease) in creditors, accruals and deferred income	72,423	136,420
Increase/(decrease) in net technical provisions	228,522	162,718
(Decrease)/increase in deposits with ceding undertakings	4,945	4,179
Cash generated from operations	294,518	196,205
Interest received	27,693	30,976
Net proceeds on purchases and sales of financial investments	(123,045)	(122,652)
Net cash Inflow from operating activities	**199,166**	**104,529**

23. Commitments

a. Capital commitments

The Group and Company have commitments to subscribe into a private equity fund investment vehicle totalling $100m (2019: $100m). At the date of the balance sheet the Group and Company had invested $50.8m (2019: $44.3m) (Note 15).

b. Operating lease commitments

The Group leases various offices, as a lessee, under operating lease agreements. The Group is required to give notice for the termination of these agreements. The lease expenditure charged to the consolidated profit and loss account during the year is $5.3m (2019: $4.0m).

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

	2020 $'000	2019 restated $'000
Not later than 1 year	5,433	4,466
Later than one year and not later than 5 years	14,465	15,016
Later than 5 years	2,308	5,224
	22,206	**24,706**

Notes to the consolidated financial statements

24. Related party transactions

Parental Guarantee

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

Shared Reinsurance Programme

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

Related party	Nature of Contract	2020 Closing balance $'000	2019 Closing balance $'000
Houston Casualty Co London	Excess of loss and Quota share	(10,775)	7,261
Syndicate 4141	Excess of loss and Quota share	53,880	23,798
		43,105	**31,059**

Intra-group reinsurance contracts

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

Related party – inward reinsurance	Nature of Contract	2020 Gross premium $'000	2020 Closing balance $'000	2019 Gross premium $'000	2019 Closing balance $'000
Tokio Marine Insurance Singapore	Inwards reinsurance	8,979	3,518	2,903	1,957
Tokio Marine & Nichido Fire Insurance Co. Ltd.	Inwards reinsurance	4,152	2,986	366	3,003
		13,131	6,504	3,269	4,960

Related party – outward reinsurance	Nature of Contract	2020 RI premium $'000	2020 Closing balance $'000	2019 RI premium $'000	2019 Closing balance $'000
Tokio Marine & Nichido Fire Insurance Co. Ltd.	Outwards reinsurance	150,799	75,774	94,044	61,231
Lloyd's Syndicate 510	Outwards reinsurance	9,524	4,108	16,002	11,274
Houston Casualty Company	Outwards reinsurance	-	(95)	-	284
Tokio Marine Kiln Insurance Limited	Outwards reinsurance	10,297	1,231	61,054	4,703
		170,620	81,018	171,100	77,492

Agency commission

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

Related party	Nature of Contract	2020 Commission $'000	2020 Closing balance $'000	2019 Commission $'000	2019 Closing balance $'000
HCC Specialty Ltd	Underwriting agency	3,999	(3,060)	4,153	(3,420)

Group services administration

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

Related party	Nature of Contract	2020 Expenses incurred $'000	2020 Closing balance $'000	2019 Expenses incurred $'000	2019 Closing balance $'000
HCC Service Company Inc. (UK branch)	Provision of central administrative services	80,713	(127)	53,137	2,366

Related party	2020 $'000	2019 $'000
HCC Insurance Holdings, Inc	840	-
HCC Service Company, Inc.	(1,538)	(1,247)
U.S. Specialty Insurance Co	41	53
NameCo (No. 808) Ltd.	-	120
HCC Reinsurance Company Ltd	17	-
HCC Underwriting Agency Ltd.	(11)	(9)
Radius Underwriting Ltd	14	-
Rattner Mackenzie Limited	(1,750)	(1,752)
HCC Re Agency	259	127
Total	(2,128)	(2,708)

Key management compensation

The key management of the Group are considered to be the statutory directors of the Company. Note 8, Net Operating Expenses, gives details of their compensation as directors of the Company.

25. Ultimate parent company and controlling party

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

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

26. Post balance sheet events

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

Company Financial Statements

Company Balance Sheet

As at 31 December 2020

ASSETS	Note	2020 $'000	2019 $'000
Intangible assets			
Goodwill	3	1,545	3,090
Investments			
Land and buildings		239	239
Investment in subsidiary undertakings	4	360,002	287,856
Other financial investments	5	1,292,296	1,140,496
		1,652,537	1,428,591
Reinsurers' share of technical provisions			
Provision for unearned premiums	9	84,802	50,995
Claims outstanding	9	274,131	189,355
		358,933	240,350
Debtors			
Debtors arising out of direct insurance operations			
- Policyholders		36,356	37,642
- Intermediaries		112,709	69,111
Debtors arising out of reinsurance operations		135,343	90,089
Other debtors	6	98,988	81,364
		383,396	278,206
Other assets			
Tangible assets	7	4,641	2,766
Deposits from third parties		42,420	29,651
Cash at bank and in hand		130,245	110,643
		177,306	143,060
Prepayments and accrued income			
Accrued interest and rent		7,768	7,980
Deferred acquisition costs	9	87,956	70,720
		95,724	78,700
Total assets		2,669,441	2,171,997

Company Balance Sheet

As at 31 December 2020

LIABILITIES	Note	2020 $'000	2019 $'000
Capital and reserves			
Called up share capital	19	233,242	233,242
Share premium		19,115	19,115
Revaluation reserve		20,597	6,406
Profit and loss account		769,682	630,544
Total shareholders' funds		1,042,636	889,307
Technical provisions			
Provision for unearned premiums	9	409,043	310,541
Claims outstanding	9	954,859	775,176
		1,363,902	1,085,717
Creditors - amounts due within one year			
Creditors arising out of direct insurance operations		9,259	10,882
Creditors arising out of reinsurance operations		84,250	46,130
Other creditors including taxation and social security	8	76,119	79,801
Deposits from third parties		42,420	29,651
		212,048	166,464
Accruals and deferred income		50,855	30,509
Total liabilities		2,669,441	2,171,997

In accordance with the exemption permitted under section 408 of the Companies Act 2006, the Company profit or loss account, and Company statement of other comprehensive income are not presented as part of these financial statements. The Company's profit after taxation for the year was $139.1 million (2019: $111.2 million profit).

Company Statement of Changes in Shareholders' Equity

For the year ended 31 December 2020

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

Capital and reserves	Called up share capital $'000	Share premium $'000	Revaluation reserve $'000	Profit and loss account $'000	Total shareholders' equity $'000
At 1 January 2019	233,242	-	6,042	519,302	758,586
Profit for the financial year	-	-	-	111,242	111,242
HCCG Merger	-	19,115	-	-	19,115
Revaluation of subsidiary undertakings	-	-	364	-	364
At 31 December 2019	233,242	19,115	6,406	630,544	889,307

1. Summary of significant accounting policies

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

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

A. Basis of Preparation

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

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

B. Exemptions for qualifying entities under FRS 102

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

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

ii. Related party disclosures, and

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

C. Investments in subsidiary undertakings

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

2. Risk management

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

2.1 Insurance risk

Reserving risk

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

	Accident year									
Loss development triangles – GROSS Ultimate claims and cumulative payments	**2012 $'000**	**2013 $'000**	**2014 $'000**	**2015 $'000**	**2016 $'000**	**2017 $'000**	**2018 $'000**	**2019 $'000**	**2020 $'000**	**Total $'000**
End of reporting year	159,035	194,248	165,529	191,842	266,613	263,000	288,837	360,508	366,604	
- one year later	126,761	208,711	172,846	224,531	270,715	263,676	296,016	419,913		
- two years later	136,171	209,964	145,768	246,520	264,636	262,220	295,704			
- three years later	140,831	191,798	145,864	237,029	307,414	291,103				
- four years later	152,229	180,328	144,787	246,141	308,383					
- five years later	144,217	179,898	151,190	226,092						
- six years later	142,732	171,425	154,608							
- seven years later	139,792	168,241								
- eight years later	142,528									
Current estimate of ultimate claims	142,528	168,241	154,608	226,092	308,383	291,103	295,704	419,913	366,604	
Cumulative payments to date	137,645	158,754	130,329	188,973	239,447	204,217	183,892	177,871	80,148	
Liability recognised in the balance sheet	4,883	9,487	24,279	37,119	68,936	86,886	111,812	242,042	286,456	871,901
Provision in respect of previous years										82,958
Total provision included in the balance sheet										**954,859**

Loss development triangles – NET Ultimate claims and cumulative payments	Accident year 2012 $'000	2013 $'000	2014 $'000	2015 $'000	2016 $'000	2017 $'000	2018 $'000	2019 $'000	2020 $'000	Total $'000
End of reporting year	123,674	165,491	125,518	149,223	193,870	200,234	218,003	253,829	229,248	
- one year later	121,191	162,094	123,913	162,717	191,322	209,533	216,107	261,201		
- two years later	108,421	153,962	102,211	160,365	182,806	192,651	221,856			
- three years later	105,424	147,643	106,235	154,807	204,930	211,365				
- four years later	102,319	143,471	107,172	152,381	201,147					
- five years later	111,553	139,822	107,356	143,236						
- six years later	108,896	131,754	108,125							
- seven years later	105,885	133,148								
- eight years later	110,763									
Current estimate of ultimate claims	110,763	133,148	108,125	143,236	201,147	211,365	221,856	261,201	229,248	
Cumulative payments to date	101,877	117,429	90,225	114,470	156,574	148,868	128,247	105,786	35,895	
Liability recognised in the balance sheet	8,886	15,719	17,900	28,766	44,573	62,497	93,609	155,415	193,353	620,718
Provision in respect of previous years										60,010
Total provision included in the balance sheet										**680,728**

2.2 Market risk

i. Foreign exchange risk

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

FX risk exposure 31 December 2020	AUD $ $'000	CAD $ $'000	CHF Fr $'000	EUR € $'000	GBP £ $'000	Subtotal $'000	USD $ $'000	Total $'000
Total assets	70,160	6,029	38,318	235,746	692,085	**1,042,338**	1,627,103	**2,669,441**
Total liabilities	**(85,203)**	**(4,326)**	**(38,895)**	**(216,069)**	**(667,332)**	**(1,011,825)**	**(614,980)**	**(1,626,805)**
Net assets	**(15,043)**	**1,702**	**(577)**	**19,677**	**24,753**	**30,513**	**1,012,123**	**1,042,636**

FX risk exposure 31 December 2019	AUD $ $'000	CAD $ $'000	CHF Fr $'000	EUR € $'000	GBP £ $'000	Subtotal $'000	USD $ $'000	Total $'000
Total assets	43,071	2,636	39,431	184,791	569,972	**839,901**	1,332,096	**2,171,997**
Total liabilities	**(48,219)**	**(795)**	**(39,206)**	**(144,219)**	**(586,056)**	**(818,495)**	**(464,195)**	**(1,282,690)**
Net assets	**(5,148)**	**1,841**	**225**	**40,572**	**(16,084)**	**21,406**	**867,901**	**889,307**

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 asset value. The table below gives an indication of the impact on net assets of a percentage change in the relative strength of the US Dollar against the value of the Australian Dollar, Canadian Dollar, Swiss Franc, the Euro, and Sterling, simultaneously.

FX risk exposure – sensitivity Change in exchange rate of Canadian Dollar, Australian Dollar, Swiss Franc, Euro and Sterling, relative to US Dollar	Impact on profit after tax 2020 $'000	 2019 $'000	Impact on net assets 2020 $'000	 2019 $'000
US Dollar weakens 30% against other currencies	1,531	13,579	9,154	(6,422)
US Dollar weakens 20% against other currencies	1,021	9,053	6,103	(4,281)
US Dollar weakens 10% against other currencies	510	4,526	3,051	(2,141)
US Dollar strengthens 10% against other currencies	(510)	(4,526)	(3,051)	2,141
US Dollar strengthens 20% against other currencies	(1,021)	(9,053)	(6,103)	4,281
US Dollar strengthens 30% against other currencies	(1,531)	(13,579)	(9,154)	6,422

ii. Interest rate risk

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

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

Investments and cash – duration 31 December 2019	<1 yr $'000	1-2 yrs $'000	2-3 yrs $'000	3-4 yrs $'000	4-5 yrs $'000	5-10 yrs $'000	>10 yrs $'000	N/A $'000	Total $'000
Variable yield securities	11,584	-	-	-	-	-	-	-	11,584
Debt securities	91,639	129,105	214,495	178,069	117,193	212,738	138,545	-	1,081,784
Other investments	-	-	-	-	-	-	-	47,128	47,128
Total other financial investments	**103,223**	**129,105**	**214,495**	**178,069**	**117,193**	**212,738**	**138,545**	**47,128**	**1,140,496**
Deposits from third parties	29,651	-	-	-	-	-	-	-	29,651
Cash at bank	110,643	-	-	-	-	-	-	-	110,643
Total	**243,517**	**129,105**	**214,495**	**178,069**	**117,193**	**212,738**	**138,545**	**47,128**	**1,280,790**

Notes to the company financial statements

Sensitivity analysis

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

Investments and cash – interest rate sensitivity Shift in yield (basis points)	Impact on profit after tax 2020 $'000	 2019 $'000	Impact on net assets 2020 $'000	 2019 $'000
100 basis point increase	(53,601)	(42,915)	(53,601)	(42,915)
50 basis point increase	(26,567)	(21,447)	(26,567)	(21,447)
50 basis point decrease	22,274	20,793	22,274	20,793
100 basis point decrease	38,011	40,860	38,011	40,860

2.3 Credit risk

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

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

Investments, reinsurance assets and cash – credit ratings 31 December 2019	AAA $'000	AA $'000	A $'000	BBB $'000	BB $'000	Not rated $'000	Total $'000
Variable yield securities	11,584	-	-	-	-	-	11,584
Debt securities	70,474	529,303	343,467	135,750	2,790	-	1,081,784
Other investments	-	-	-	-	-	47,128	47,128
Total other financial investments	**82,058**	**529,303**	**343,467**	**135,750**	**2,790**	**47,128**	**1,140,496**
Reinsurers' share of technical provisions	-	99,316	137,951	1,138	1,945	-	240,350
Debtors arising out of reinsurance operations	-	41,658	47,342	64	1,025	-	90,089
Cash at bank	110,643	-	-	-	-	-	110,643
Total	**192,701**	**670,277**	**528,760**	**136,952**	**5,760**	**47,128**	**1,581,578**

The Company's largest counterparty exposure is $221.5m of US Government securities (2019: $214.7m).

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

Financial assets – ageing 31 December 2019	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	189,355	-	-	-	-	189,355
Insurance debtors	77,825	18,644	10,284	-	-	106,753
Reinsurance debtors	86,672	1,232	1,940	245	-	90,089
Other debtors	81,364	-	-	-	-	81,364
Total	**435,216**	**19,876**	**12,224**	**245**	**-**	**467,561**

Fair value estimation

The following table presents the Company's financial investments measured at fair value at 31 December 2020 and 31 December 2019 categorised into levels 1, 2 and 3, reflecting the categorization criteria specified in FRS 102 (s34.22). No liabilities were measured at fair value at 31 December 2020 or 31 December 2019.

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

Financial investments – pricing basis	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
31 December 2019				
Variable yield securities	-	11,584	-	11,584
Debt securities	-	1,081,784	-	1,081,784
Other investments	-	-	47,128	47,128
Total other financial investments	**-**	**1,093,368**	**47,128**	**1,140,496**

Notes to the company financial statements

2.4 Liquidity risk

The following table is an analysis of the net contractual cash flows based on all the liabilities held at 31 December 2020 and 2019:

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

Financial liabilities – projected cash flows 31 December 2019	Within 1yr $'000	1-3 years $'000	3-5 years $'000	>5 years $'000	Total $'000
Net claims outstanding	151,823	189,962	113,705	130,331	585,821
Creditors from direct insurance operations	10,882	-	-	-	10,882
Creditors from reinsurance operations	46,130	-	-	-	46,130
Other creditors	79,801	-	-	-	79,801
Total	**288,636**	**189,962**	**113,705**	**130,331**	**722,634**

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

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

Investments and cash – maturity 31 December 2019	Within 1yr $'000	1-3 years $'000	3-5 years $'000	>5 years $'000	N/A $'000	Total $'000
Variable yield securities	11,584	-	-	-	-	11,584
Debt securities	49,252	203,124	145,815	683,593	-	1,081,784
Other investments	-	-	-	-	47,128	47,128
Total other financial investments	**60,836**	**203,124**	**145,815**	**683,593**	**47,128**	**1,140,496**
Cash at bank	110,643	-	-	-	-	110,643
Total	**171,479**	**203,124**	**145,815**	**683,593**	**47,128**	**1,251,139**

3. Goodwill

	2020 $'000	2019 $'000
Cost		
At 1 January	23,176	23,176
At 31 December	23,176	23,176
Accumulated amortisation		
At 1 January	20,086	18,541
Amortisation charge for the year	1,545	1,545
At 31 December	21,631	20,086
Net book value		
At 31 December	1,545	3,090

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

4. Investment in subsidiary undertakings

Set out below are HCCII's subsidiaries, as at 31 December 2020, with details of the percentages of nominal value and voting rights held by HCCII. The movement in the revaluation of subsidiary undertakings is summarised below:

	2020 $'000	2019 $'000
At 1 January	287,856	248,051
Investment in subsidiary undertaking	20,000	20,000
HCCG Merger	-	19,115
GCube acquisition (Note 14)	42,979	326
Qdos adjustment (Note 13)	(5,013)	-
Revaluation of subsidiary undertakings	14,488	165
Foreign exchange impact on translation to closing rate	(308)	199
At 31 December	**360,002**	**287,856**

HCCII invested an additional $20m of share capital into TME during December 2020.

During 2019, investments in subsidiary undertakings increased by the fair value of $19m arising from the HCCG Merger into TME.

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

Notes to the company financial statements

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

All subsidiary companies are directly held and are incorporated in England and Wales unless otherwise stated above. HCC Diversificación y Soluciones S.L. is exempt from audit by virtue of s479A of Companies Act 2006.

5. Other financial investments

	Fair value		Book cost	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Variable yield securities and units in unit trusts	82,164	11,584	82,164	11,584
Debt securities and other fixed-income securities	1,151,466	1,081,784	1,074,078	1,064,438
Other investments	58,666	47,128	50,810	44,313
	1,292,296	**1,140,496**	**1,207,052**	**1,120,335**

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

6. Other debtors

	2020 $'000	2019 $'000
Claims funds	1,108	2,567
Other debtors	576	368
Amounts owed by group companies	97,304	78,429
	98,988	81,364

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

7. Tangible assets

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

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

	Leasehold improvements $'000	Owner occupied land and buildings $'000	Computer equipment $'000	Fixtures, fittings and office equipment $'000	Total $'000
Book cost					
At 1 January 2019	1,466	3,848	19	1,904	7,237
Disposals	-	-	(19)	(139)	(158)
At 31 December 2019	**1,466**	**3,848**	**-**	**1,765**	**7,079**
Accumulated depreciation					
At 1 January 2019	1,466	1,049	19	1,831	4,365
Disposals	-	-	(19)	(139)	(158)
Charge for the year	-	88	-	18	106
At 31 December 2019	**1,466**	**1,137**	**-**	**1,710**	**4,313**
Net book value					
31 December 2019	-	2,711	-	55	2,766

8. Other creditors including taxation and social security

	2020 $'000	2019 $'000
Corporation tax	13,762	17,695
Deferred tax liability	4,402	6,799
Other creditors	186	278
Deferred consideration	-	10,476
Amounts owed by group companies	57,769	44,553
	76,119	79,801

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

Deferred tax liability	2020 $'000	2019 $'000
At 1 January - deferred tax liability	6,799	10,122
Changes in accelerated capital allowances	3	6
Deferred taxation of release of Equalisation provision	(1,984)	(3,047)
Technical reserves	83	125
Short-term timing differences	(199)	(407)
Losses carried forward	(300)	-
At 31 December - deferred tax liability	4,402	6,799

The deferred tax liability consists of the following amounts:

	2020 $'000	2019 $'000
Accelerated capital allowances	259	256
Technical reserves	999	915
Short-term timing differences	398	95
Deferred taxation for release of Equalisation provision	3,046	5,533
Losses carried forward	(300)	-
Deferred tax liability	4,402	6,799

A potential deferred tax asset of $nil (2019: $1.6m) in respect of certain unutilised tax losses has not been recognised as there is insufficient evidence that it will be recoverable. This asset would be recovered should sufficient taxable profits be generated in future which would be eligible for relief against the unutilised tax losses.

9. Technical provisions - Company

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

(1) Claims outstanding includes claims incurred but not reported (IBNR) reserves of $544.8m gross of reinsurance and $127.7m reinsurer's share of IBNR reserves (2019: $374.0m gross; $62.0m reinsurer's share).

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

Gross of reinsurance	Provisions for unearned premiums $'000	Claims outstanding (1) $'000	Deferred acquisition costs (2) $'000	Net technical liabilities $'000
At 1 January 2019	334,313	768,391	(80,798)	1,021,906
Movement in provision	(33,440)	296,193	10,721	273,474
Exchange adjustments	9,668	15,064	(643)	24,089
Part VII transfer at 1 January 2019	-	(304,472)	-	(304,472)
At 31 December 2019	**310,541**	**775,176**	**(70,720)**	**1,014,997**
Reinsurance				
At 1 January 2019	(69,049)	(240,945)	16,764	(293,230)
Movement in provision	23,264	(75,426)	(5,782)	(57,944)
Exchange adjustments	(5,210)	(5,130)	204	(10,136)
Part VII transfer at 1 January 2019	-	132,146	-	132,146
At 31 December 2019	**(50,995)**	**(189,355)**	**11,186**	**(229,164)**
Net				
At 31 December 2019	**259,546**	**585,821**	**(59,534)**	**785,833**

Notes to the company financial statements

10. Tax on profit on ordinary activities

	2020 $'000	2019 $'000
UK Corporation tax at 19.00% (2019:19.00%)		
Current tax on income for the year	34,876	34,846
Tax in respect of prior years	**(3,315)**	**1,798**
Current tax charge for the year	31,561	36,644
Deferred tax - origination and reversal of timing differences	(2,401)	(3,203)
Tax on profit on ordinary activities	**29,160**	**33,441**

The tax assessed for the year is higher (2019: higher) than the standard rate of corporation tax in the UK. The differences are explained below:

	2020 $'000	2019 $'000
Profit on ordinary activities before taxation	**168,298**	**144,683**
Tax on profit on ordinary activities at standard rate of 19.00% (2019: 19.00%)	31,977	27,490
Expenses not deductible for tax purposes	205	206
Amortisation of goodwill and intangibles	294	294
Foreign tax	216	1,350
Effect of tax rate changes	502	0
Effect of foreign exchange	342	762
Tax in respect of prior years	(2,272)	1,798
Movement in unrecognised deferred tax asset	(2,043)	1,570
Other	(61)	(29)
Tax on profit on ordinary activities	**29,160**	**33,441**

UK

LONDON

Fitzwilliam House
10 St. Mary Axe
London
EC3A 8BF
Tel: +44 (0)20 7702 4700

1 Aldgate
London
EC3N 1RE
Tel: +44 (0)20 7648 1100

40 Lime St
London
EC3M 7AW
Tel: +44 (0)20 7929 3223

At Lloyd's
1 Lime St
London
EC3M 7HA

GCube Underwriting Ltd
155 Fenchurch St
London
EC3M 6AL
Tel: +44 (0)20 7977 0200

BRISTOL

Clifton Business Centre Suite 10
Somerset House
18 Canynge Road
Clifton
Bristol
BS8 3JX
Tel: +44 (0)117 372 7280

BIRMINGHAM

30 St. Pauls Square
Birmingham
B3 1QJ
Tel: +44 (0)121 345 8390

LEICESTER

The Grange
Rearsby
Leicester
LE7 4FY
Tel: +44 (0)1664 424896

MANCHESTER

Lowry House
Suite 6.02
Marble Street
Manchester
M2 3AW
Tel: +44 (0)161 880 4723

BRIDGEND

6 Old Field Road
Bocam Park
Pencoed
Bridgend
CF35 5LJ
Tel: +44 (0)165 686 8000

Europe

LUXEMBOURG

26, Avenue de la Liberté
L-1930 Luxembourg
Tel: +352 2786 8300

BELGIUM

Avenue du Bourget / Bourgetlaan
42, B-1130, Brussels
Belgium
Tel: +32 2 218 27 28

DENMARK

Strandvejen 125
DK-2900 Hellerup
Denmark
Tel: +45 77 34 14 40

FRANCE

Rhone Alpes Building,
235 Cours Lafayette
69006 Lyon
France
Tel: +33 (0) 4 78 92 82 11

36, rue de Châteaudun
75009 Paris
France
Tel: +33 (0)1 53 29 30 00

REGUS, Gare de Bordeaux
Saint-Jean
Parvis Louis Armand
Pavillon Nord CS 21912
33082 Bordeaux Cedex
Tel: +33 (0)5 56 64 42 94

Colmar 11 rue Mittlerweg
68000 Colmar
Tel: +33 (0)3 89 20 38 71

GERMANY

Berliner Allee 26
40212 Düsseldorf
Germany
Tel: +49 211 17237-0

Bockenheimer Landstraße
2 - 4, OpernTurm
Frankfurt 60306
Germany
Tel: +49 (0) 69 66774 – 8061

Rindermarkt 16
80331 Munich
Germany
Tel: +49 89 3803 4640

IRELAND

Summit House
Embassy Office Park
W91 VK0T
Kill Co. Kildare
Tel: +353 (0)4 588 6993

ITALY

Tre Torri
Piazza Tre Torri, 3
20145 Milano
Italy
Tel: +39 02 655 4791

Galleria Vittorio Emanuele II,
Via Giuseppe Mengoni, 4
20121 Milano
Italy

NORWAY

c/o Quality Holding
Drammenveien 288
0283 Oslo

SPAIN

Torre Diagonal Mar
Josep Pla 2
10th Floor
08019 Barcelona
Tel: +34 93 530 7300

THE NETHERLANDS

Prof. W.H. Keesomlaan 1
1183 DJ Amstelveen
The Netherlands
Tel: +31 (0)20 676 6757

Gustav Mahlerlaan 1212
1081 LA Amsterdam
The Netherlands
Tel: +31 20 2091 542

Tokio Marine HCC
1 Aldgate, London EC3N 1RE
T: +44 (0)20 7648 1100

tmhcc.com

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