HCC

2012 Annual Report and Accounts
Syndicate 4141

HCC Underwriting Agency Ltd.

SYNDICATE REPORTS AND ANNUAL ACCOUNTS

CONTENTS

DIRECTORS AND ADVISORS

Managing Agent:	HCC Underwriting Agency Ltd.
Registered Office:	Walsingham House 35 Seething Lane London EC3N 4AH
Registered No.:	4632146
Directors:	J H Bishop (Chairman and non-executive director) B J Cook K J Cordier J R Davidson T J G Hervy N I Hutton-Penman (Chief Executive Officer) K L Letsinger J L T Newbegin (non-executive director) W J Taylor W R Treen (non-executive director)
Syndicate:	Syndicate 4141
Active Underwriter:	B J Cook
Company Secretary:	D R Feldman / R L Hughes
Bankers:	Barclays Bank Plc
Investment Manager:	General Re-New England Asset Management Ltd
Independent Auditors:	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors 7 More London Riverside London SE1 2RT

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REPORT OF THE DIRECTORS OF THE MANAGING AGENT

The directors of the Managing Agent present their report for the year ended 31 December 2012.

This annual report is prepared using the annual basis of accounting in accordance with Regulation 5 of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ("the 2008 Regulations").

Principal activity

The principal activity of the business is the transaction of general insurance and reinsurance business written in the UK.

The Managing Agency's ultimate parent is HCC Insurance Holdings, Inc. (HCC), whose head office is in Houston, Texas.

Syndicate 4141 (the Syndicate) is a wholly aligned HCC Syndicate that serves as the platform for HCC in the Lloyd's market which began underwriting business in 2008. The Syndicate is one of several HCC underwriting platforms in the London insurance market. Consistent with its approach in previous years, business underwritten by the Syndicate is based on prescribed rules that determine which HCC carrier is utilised. Business underwritten on more than one of the HCC London market platforms and underwritten by the Syndicate includes Property Treaty, Property Direct and Facultative, Accident and Health, Energy, Directors and Officers, Contingency, General Liability and Marine Hull. In addition, the Syndicate exclusively underwrites Travel Medical business on behalf of HCCs wholly owned agency, HCC Medical Insurance Services (HCCMIS) business based in Indiana, USA.

In connection with the closure of Syndicate 4040, the Syndicate assumed the liabilities of Syndicate 4040 which consisted primarily of General Liability business written in that syndicate between 2004 and 2009.

The Managing Agent monitors a number of key performance indicators for the business:

	2012 £000	2011 £000	Change %
Gross written premiums	91,128	105,013	-13.2%
Profit/(loss) for the financial year	12,920	(12,383)	N/A
Combined ratio	89.3%	115.5%	-26.2%
Investment return	4,596	848	+442.0%

Note: The combined ratio is the ratio of net claims incurred and net operating expenses to net premiums earned.

Results

The result for the calendar year is a profit of £12,920k (2011: loss of £12,383k). The significant improvement in the result is primarily due to the relatively benign catastrophe environment during 2012 compared with the unprecedented number of market catastrophe events in 2011. Losses from 2012 catastrophe events, which primarily relate to Superstorm Sandy, were within our expectation of the 2012 annual catastrophe load. Estimates for losses on 2010 and 2011 catastrophes have substantially remained unchanged in 2012. In addition, the results of the Third party liability business have improved following the decision in 2011 to exit the international element of this class of business given its historically poor performance.

REPORT OF THE DIRECTORS OF THE MANAGING AGENT

Business review

Gross written premium for 2012 totalled £91.1 million compared to £105.0 million in 2011. The decrease in business is primarily attributable to the decision to exit international third party liability business. Market conditions have continued to be challenging in many of our lines of business and we will not grow premium if we do not believe pricing is at a level that will result in targeted Syndicate returns. The largest line of business written by the Syndicate is the HCCMIS Travel Medical business which is included in the Accident & Health segment. There has been growth in the Travel sub-segment of this account in 2012 and premium volumes remain robust.

The other significant business line is Property Treaty which is included in the Reinsurance segment. This line of business continues to perform well. Given risk selection discipline and underwriting expertise the 2012 premium volume for this line of business was less than in 2011.

General Liability business (included within the Third party liability segment) is operating in a very competitive environment. We continue to lose business to competitors who accept risks often at considerable discounts to our benchmark price. Premium for the 2012 underwriting year will be well below the 2011 level, and we expect no significant change in 2013.

Our Energy account (included in the Marine and Reinsurance segments) is substantially comprised of our Canadian business. In general the Energy market is very competitive onshore, but relatively well rated offshore, albeit we do not write Gulf of Mexico exposed business in the Syndicate where rates have remained stronger.

The remainder of the business is comprised of London market Accident and Health, Sports Disability, Contingency, Property Direct and Facultative, Marine Hull and Directors and Officers lines of business. We remain conservative in the way we underwrite these lines and believe that we will see growth in these lines as we move forward and are able to effectively leverage our position in Lloyd’s.

Market conditions and future developments

The strategic focus of HCC and its operations is to generate underwriting profit which meets HCCs required risk adjusted return on capital. We have the appetite for growth in the Syndicate when market conditions and other opportunities are such which will meet these financial targets. HCC sees the London Market as a desirable strategic growth area and we will utilise our Lloyd’s platform for growth opportunities should they arise.

Reinsurance

We purchase reinsurance to cover catastrophe exposed lines. The excess of loss programmes are shared amongst the Syndicate and the other HCC International carriers. Premiums are allocated pro rata to risk weighted gross written premiums and recoveries are shared between insurance carriers by reference to the share of gross loss by insurance carrier. Adoption of a shared reinsurance programme is approved by the Board and advised to both Lloyd’s and the Financial Services Authority. In addition the Syndicate purchases quota share reinsurance to balance line size and premium where it is prudent to do so.

Principal risks and uncertainties

The Board sets risk appetite as part of the Syndicate’s business planning and Individual Capital Assessment process. The Managing Agency regularly reviews and updates the risk register and monitors performance against risk appetite using a series of key risk indicators. The principal risks and uncertainties facing the Syndicate are as follows:

Insurance risk

Insurance risk includes the risks that a policy will be written for too low a premium or provide inappropriate cover (underwriting risk), that the frequency or severity of insured events will be higher than expected (claims risk), or that estimates of claims subsequently prove to be insufficient (reserving risk). The Board manages insurance risk by agreeing its appetite for these risks annually through the business plan which sets out targets for volumes, pricing, line sizes and retention by class of business. The Board then monitors performance against business plan through the year. Reserve adequacy is monitored quarterly by the Board.

Credit risk

The key aspects of credit risk are the risk of default by one or more of the Syndicate's reinsurers and the risk of default by one of the Syndicate's bankers or investments. The Board's policy is that the Syndicate will only reinsure with reinsurers who are either on HCC's approved security listing or who are specially accepted by the HCC Security Committee. All new reinsurers are assessed before business is placed with them. With regard to the investment portfolio, the investment guidelines set by the Investment Committee contain limits to both sector and individual counterparty exposures. They also restrict investment holdings to investment grade securities at the time of purchase. As documented elsewhere, our investment portfolio has performed well during these difficult economic conditions.

Market risk

The key aspect of market risk is that the Syndicate incurs losses on foreign exchange movements as a result of mismatches between the currencies in which assets and liabilities are denominated. It is the policy of management to match assets and liabilities by currency. Currency matching is reviewed monthly. Interest rate risk arises primarily from investment in fixed interest securities.

Liquidity risk

This is the risk that the Syndicate will not be able to meet its liabilities as they fall due, owing to a shortfall in cash. To mitigate this risk cash flow projections are reviewed regularly. In addition the Investment Committee is responsible, in conjunction with the Investment Managers, for setting investment guidelines for operating the portfolios. These guidelines take into account the cash flow needs of the Syndicate and ensure that, even in circumstances where it is not always possible to realise an investment at book price at short notice, there are sufficient funds available to meet liabilities as they fall due.

Operational risk

This is the risk that errors caused by people, processes or systems lead to losses to the Syndicate. The Agency seeks to manage this risk through the use of detailed procedure manuals and a structured programme of testing of processes and systems by Internal Audit.

Regulatory risk

The Agency is required to comply with the requirements of the Financial Services Authority and Lloyd's. Lloyd's requirements include those imposed on the Lloyd's market by overseas regulators, particularly in respect of US situs business. Regulatory risk is the risk of loss owing to a breach of regulatory requirements or failure to respond to regulatory change. The Agency has a Compliance Officer who monitors regulatory developments and assesses the impact on agency policy.

REPORT OF THE DIRECTORS OF THE MANAGING AGENT

Directors
The directors of the Managing Agent who served during the year ended 31 December 2012, or who were appointed or resigned subsequent to the year end, were as follows:

J H Bishop FIA
B J Cook
K J Cordier (appointed 21 August 2012)
J R Davidson (appointed 1 May 2012)
D R Feldman LLB Hons (resigned 1 August 2012)
T J G Hervy (appointed 1 May 2012)
N I Hutton-Penman BSc, ACA
K L Letsinger BSc, CPA (appointed 8 October 2012)
B R A Merriman FCA (resigned 19 September 2012)
J L T Newbegin
M J Schell (resigned 16 July 2012)
W J Taylor BCom, ACA
W R Treen BSc, FIA

Directors' interests
No director participated on the Syndicate.

Financial information on HCC Underwriting Agency Ltd.
The total managed Syndicate allocated capacity of the Managing Agent, its income, expenses net of recharges to the managed Syndicates and net assets as at 31 December are set out below:

	2012 £000	2011 £000
Managed capacity	130,739	130,739
Fee income	150	407
Expenses net of recharges	(107)	(237)
Other income	-	2
Profit before tax	43	172
Net assets	772	739

Income and expenses shown above are based on information included in the Managing Agent's financial statements, copies of which are available for inspection by the capacity provider from its registered office. The 2012 figures are unaudited.

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

The Syndicate maintains funds in US dollars, Sterling, Canadian dollars, Euros and Australian dollars. Certain national regulators lay down requirements for funds to be held and controlled either domestically or by Lloyd's. The remaining funds are referred to as unregulated funds and their investment is under the Company's control within the framework laid down by the FSA.

General Re-New England Asset Management has been investment managers for the US dollar, Sterling and Euro funds throughout the year. The funds consist primarily of a portfolio of highly rated Corporate Bonds, which is BBB rating and above, including Bonds guaranteed by the UK, French, German and Canadian governments. The average duration of the funds at the year end was 3.25 years for the aggregate portfolios.

The annualised investment return on managed funds was 4.38% for the Sterling portfolio and 5.06% for the Euro portfolio. The return on the Sterling portfolio was comfortably ahead of our benchmark, owing primarily to the higher exposure to Corporate Bonds which benefited from the risk rally seen during the year as the Bank of England and other central banks continued to implement loose monetary policy. Another driver of this outperformance was the longer duration of the Sterling portfolio by comparison to the benchmark and the beneficial impact of this as gilt yields fell. The return on the Euro portfolio was also ahead of our benchmark although by a lesser amount as the benchmark contained some peripheral Eurozone exposures which rallied very strongly as the year progressed. The return of the US dollar portfolios was comfortably ahead of the benchmark, due to the duration and the overweight to spread sectors.

The other funds were placed on the money market or within short-term liquidity funds.

Other matters
No other consents have been requested of the Council of Lloyd's.

The Syndicate has not entered into any incentive agreements with brokers.

Statement of Managing Agent's responsibilities
The Managing Agent is responsible for preparing the Syndicate annual report and annual accounts in accordance with applicable law and regulations.

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 requires the Managing Agent to prepare Syndicate annual accounts at 31 December each year in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The annual accounts are required by law to give a true and fair view of the state of affairs of the Syndicate as at that date and of its profit or loss for that year.

In preparing the Syndicate annual accounts, the Managing Agent is required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgments and estimates that are reasonable and prudent;
- State whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the annual accounts; and
- Prepare the annual accounts on the basis that the Syndicate will continue to write future business unless it is inappropriate to presume that the Syndicate will do so.

REPORT OF THE DIRECTORS OF THE MANAGING AGENT

The directors of the Managing Agent confirm that they have complied with the above requirements in preparing the annual accounts.

The directors of the Managing Agent are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Syndicate and enable it to ensure that the Syndicate annual accounts comply with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. They are also responsible for safeguarding the assets of the Syndicate and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors of the Managing Agent are responsible for the maintenance and integrity of the corporate and financial information included on the business' website. Legislation in the UK governing the presentation and dissemination of financial statements may differ from legislation in other jurisdictions.

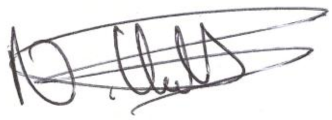
Disclosure of information to the auditors
So far as each person who was a director of the Managing Agent at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with its report, of which the auditor is unaware. Having made enquiries of fellow directors of the Agency, each director has taken all the steps that he is obliged to take as a director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

Auditors
PricewaterhouseCoopers LLP will be reappointed as Syndicate auditors.

Annual General Meeting
The directors do not propose to hold a Syndicate Annual General Meeting during 2013, as permitted under the Syndicate Meetings (Amendment No. 1) Byelaw (No. 18 of 2000).

The capacity provider may object to the matter set out above within 21 days of the issue of these accounts. Any such objection should be addressed to D R Feldman, Company Secretary, at the registered office.

Approved for and on behalf of HCC Underwriting Agency Ltd.



N. I. Hutton-Penman
Chief Executive Officer

12 March 2013

INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF SYNDICATE 4141

We have audited the syndicate annual accounts for the year ended 31 December 2012 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Statement of Cash Flows, the Statement of Accounting Policies and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of the managing agent and the auditors
As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 7 and 8, the managing agent is responsible for the preparation of syndicate annual accounts which give a true and fair view. Our responsibility is to audit and express an opinion on the syndicate annual accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the syndicate's member as a body in accordance with section 10 of part 2 of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 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.

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

Opinion on syndicate annual accounts
In our opinion the syndicate annual accounts:

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2012 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

Opinion on other matter prescribed by The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008
In our opinion the information given in the Managing Agent's Report for the financial year for which the syndicate annual accounts are prepared is consistent with the syndicate annual accounts.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 requires us to report to you, if in our opinion:

INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF SYNDICATE 4141

- the managing agent in respect of the syndicate has not kept adequate accounting records; or
- the syndicate annual accounts are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

Alex Bertolotti (Senior statutory auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

13 March 2013

PROFIT AND LOSS ACCOUNT:
TECHNICAL ACCOUNT – GENERAL BUSINESS
for the year ended 31 December 2012

	Notes		2012		2011
		£000	£000	£000	£000
Earned premiums, net of reinsurance					
Gross premiums written	1	91,128		105,013	
Outward reinsurance premiums		(17,405)		(17,078)	
Net premiums written		73,723		87,935	
Change in the provision for unearned premiums					
Gross amount		2,931		(2,464)	
Reinsurers' share		1,131		(247)	
Change in the net provision for unearned premiums		4,062		(2,711)	
Earned premiums, net of reinsurance			77,785		85,224
Allocated investment return transferred from the non-technical account			4,596		848
Claims incurred, net of reinsurance					
Claims paid					
Gross amount		(56,877)		(34,761)	
Reinsurers' share		4,096		4,340	
Net claims paid		(52,781)		(30,421)	
Change in the provision for claims					
Gross amount		15,203		(48,195)	
Reinsurers' share		1,277		15,363	
Change in the net provision for claims		16,480		(32,832)	
Claims incurred, net of reinsurance			(36,301)		(63,253)
Net operating expenses	3		(33,160)		(35,202)
Balance on the technical account for general business			12,920		(12,383)

PROFIT AND LOSS ACCOUNT:
NON-TECHNICAL ACCOUNT
for the year ended 31 December 2012

	Notes	2012 £000	2011 £000
Balance on the general business technical account		12,920	(12,383)
Investment income	5	3,210	682
Unrealised gains on investments		2,254	187
Investment expenses and charges	5	(312)	(17)
Unrealised losses on investments		(556)	(4)
Allocated investment return transferred to general business technical account		(4,596)	(848)
Profit/(loss) for the financial year		12,920	(12,383)

All operations are continuing.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
for the year ended 31 December 2012

	2012 £000	2011 £000
Profit/(loss) for the financial year	12,920	(12,383)
Foreign currency exchange (loss)/gain on retranslation	(692)	180
Total recognised gains/(losses)	12,228	(12,203)

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BALANCE SHEET
as at 31 December 2012

ASSETS

	Notes		2012		2011
		£000	£000	£000	£000
Investments					
Other financial investments	6		78,573		27,485
Reinsurers' share of technical provisions					
Provision for unearned premiums		4,286		3,243	
Claims outstanding	2	47,275		20,457	
			51,561		23,700
Debtors					
Debtors arising out of direct insurance operations	7	20,593		24,554	
Debtors arising out of reinsurance operations		1,225		1,236	
Other debtors	8	1,572		4,281	
			23,390		30,071
Other assets					
Cash at bank and in hand		2,836		1,968	
Other	9	42,186		17,253	
			45,022		19,221
Prepayments and accrued income					
Accrued interest		1,534		249	
Deferred acquisition costs		8,020		10,225	
			9,554		10,474
Total assets			208,100		110,951

BALANCE SHEET
as at 31 December 2012

LIABILITIES

	Notes	£000	2012 £000	£000	2011 £000
Member's balance	11		(1,526)		(14,626)
Technical provisions					
Provision for unearned premiums		31,396		35,404	
Claims outstanding	2	164,052		77,697	
			195,448		113,101
Creditors					
Creditors arising out of direct insurance operations		3,233		2,877	
Creditors arising out of reinsurance operations		9,197		7,583	
Other creditors	10	1,748		2,016	
			14,178		12,476
Total liabilities			208,100		110,951

The accounts were approved by the Board of HCC Underwriting Agency Ltd. on 12 March 2013 and signed on its behalf by

W J Taylor
Finance Director

12 March 2013

STATEMENT OF CASH FLOWS
for the year ended 31 December 2012

	Notes	2012 £000	2011 £000
Net cash inflow from operating activities	12	78,016	19,592
Financing:			
Loss/(profit) distribution		872	(1,498)
Net cash inflow		78,888	18,094
Cash flows were invested as follows:			
Increase in cash holdings	13	901	-
Increase in overseas deposits	13	25,922	8,872
Net portfolio investments	13,14	52,065	9,222
Net investment of cash flows		78,888	18,094

ACCOUNTING POLICIES

BASIS OF PRESENTATION

These financial statements have been prepared in accordance with Regulation 5 of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and applicable Accounting Standards in the United Kingdom and comply with the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers in December 2005 (as amended in December 2006), except for the inclusion of foreign exchange gains and losses in the technical account.

BASIS OF ACCOUNTING

Comparatives

Where necessary, comparative amounts have been adjusted to conform to changes in presentation in the current year.

Premiums written

Premiums written comprise premiums on contracts incepted during the financial year as well as adjustments made in the year to premiums written in prior accounting periods. Premiums are shown gross of brokerage payable and exclude taxes and duties levied on them. Estimates are made for pipeline premiums, representing amounts due to the Syndicate not yet notified.

Unearned premiums

Written premiums are recognised as earned according to the risk profile of the policy. Unearned premiums represent the proportion of premiums that relate to unexpired terms of policies in force at the balance sheet date, calculated on the basis of established earnings patterns or time apportionment as appropriate.

Reinsurance premium ceded

Outwards reinsurance premiums are accounted for in the same accounting period as the premiums for the related inwards business.

Claims provisions and related recoveries

Gross claims incurred comprise the estimated cost of all claims occurring during the year, whether reported or not, including related direct and indirect claims handling costs and adjustments to claims outstanding from previous years.

The provision for claims outstanding is assessed on an individual case basis and is based on the estimated ultimate cost of all claims notified but not settled by the balance sheet date, together with the provision for related claims handling costs. The provision also includes the estimated cost of claims incurred but not reported ('IBNR') at the balance sheet date based on management's test estimate using statistical methods.

These methods generally involve projecting from past experience of the development of claims over time to form a view of the likely ultimate claims to be experienced for more recent underwriting, having regard to variations in the business accepted and the underlying terms and conditions. For the most recent years, where a high degree of volatility arises from projections, estimates may be based in part on output from rating and other models of the business accepted and assessments of underwriting conditions. The amount of salvage and subrogation recoveries is separately identified and, where material, reported as an asset.

The reinsurers' share of provisions for claims is based on the amounts of outstanding claims and projections for IBNR, net of estimated irrecoverable amounts, having regard to the reinsurance programme in place for the class of business, the claims experience for the year and the current security rating of the reinsurance companies involved. A number of statistical methods are used to assist in making these estimates.

The two most critical assumptions as regards claims provisions are that the past is a reasonable predictor of the likely level of claims development, and that the rating and other models used for current business are fair reflections of the likely level of ultimate claims to be incurred.

The directors consider that the provisions for gross claims and related reinsurance recoveries are sufficient to cover liabilities arising out of insurance contracts that can reasonably be foreseen. However, the ultimate liability will vary as a result of subsequent information and events, and this may result in significant adjustments to the amounts provided. Adjustments to the amounts of claims provisions established in prior years 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.

Unexpired risks provision
A provision for unexpired risks is made where claims and related expenses arising after the end of the financial period, in respect of contracts concluded before that date, are expected to exceed the unearned premiums under these contracts, after the deduction of any acquisition costs deferred.

The provision for unexpired risks is calculated by reference to classes of business which are managed together, after taking into account relevant investment return.

Acquisition costs
Acquisition costs, comprising commission and other costs directly related to the acquisition of insurance contracts are deferred to the extent that they are attributable to premiums unearned at the balance sheet date.

Foreign currencies
Transactions in US dollars, Australian dollars, Canadian dollars and Euros are translated at the average rates of exchange for the period into the Syndicate’s presentation currency of GBP. Underwriting transactions denominated in other foreign currencies are included at the rate of exchange ruling at the date the transaction is processed. Exchange differences arising on currency transactions are included in the technical account within net operating expenses.

Assets and liabilities denominated in foreign currencies are translated at the rate of exchange at the balance sheet date. Exchange differences arising from the retranslation of the opening balance of members’ funds and the result for the year, in the respective currency ledgers, is recorded as a movement in reserves within the Statement of Total Recognised Gains and Losses.

Investments
Investments are stated at current value at the balance sheet date. For this purpose, listed investments are stated at market value, being the bid price, and deposits with credit institutions and overseas deposits are stated at cost.

Investment return
Investment return comprises all investment income, realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses, charges and interest.

Realised gains and losses on investments carried at market value are calculated as the difference between net sale proceeds and purchase price. Unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date and their valuation at the previous balance sheet date, or purchase price if acquired during the year, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period. Realised and unrealised investment gains and losses are included in the profit and loss account.

Investment return is initially recorded in the non-technical account. A transfer is made from the non-technical account to the general business technical account. Investment return has been wholly allocated to the technical account as all investments relate to the technical account.

ACCOUNTING POLICIES

Taxation
Under Schedule 19 of the Finance Act 1993 managing agents are not required to deduct basic rate income tax from trading income. In addition, all UK basic rate income tax deducted from Syndicate investment income is recoverable by managing agents and consequently the distribution made to members or their members' agents is gross of tax. Capital appreciation falls within trading income and is also distributed gross of tax.

No provision has been made for any United States Federal Income Tax payable on underwriting results or investment earnings. Any payments on account made by the Syndicate during the year are included in the balance sheet under the heading 'other debtors'.

No provision has been made for any overseas tax payable by members on underwriting results.

Profit commission
No profit commission is charged by the Managing Agent.

Syndicate operating expenses
All Syndicate operating expenses are allocated to the year of account for which they are incurred.

Expenses which are incurred jointly for the agency company and managed Syndicate are apportioned between the agency company and the Syndicate on bases depending on the amount of work performed, resources used and the volume of business transacted.

Overriding and profit commissions earned on reinsurance contracts are included within Syndicate operating expenses on an accrued basis.

HCC's international operations operate a Group Self Invested Personal Pension Scheme. Pension costs are expensed in full in the period to which they relate.

NOTES TO THE FINANCIAL STATEMENTS

1. SEGMENTAL ANALYSIS

An analysis of the underwriting result before investment return is set out below:

2012	Gross written premiums £000	Gross premiums earned £000	Gross claims incurred £000	Gross operating expenses £000	Reinsurance balance £000	Underwriting result £000
Accident and health	35,493	31,687	(17,656)	(16,863)	596	(2,236)
Marine aviation and transport	4,312	4,144	(2,813)	(1,124)	(1,456)	(1,249)
Motor (third party liability)	-	-	(2,659)	(341)	2,617	(383)
Fire and other damage to property	6,145	5,759	3,384	(1,241)	(5,172)	2,730
Third party liability	9,016	16,508	(1,681)	(6,974)	(7,088)	765
Miscellaneous	2,018	1,839	(827)	(1,040)	(93)	(121)
Total	56,984	59,937	(22,252)	(27,583)	(10,596)	(494)
Reinsurance	34,144	34,122	(19,422)	(7,746)	1,864	8,818
Total	91,128	94,059	(41,674)	(35,329)	(8,732)	8,324

2011	Gross written premiums £000	Gross premiums earned £000	Gross claims incurred £000	Gross operating expenses £000	Reinsurance balance £000	Underwriting result £000
Accident and health	30,797	31,684	(14,459)	(17,350)	(200)	(325)
Marine aviation and transport	3,797	3,545	(1,860)	(999)	(285)	401
Motor (third party liability)	-	-	-	-	-	-
Fire and other damage to property	5,278	4,520	(6,203)	(1,060)	3,605	862
Third party liability	25,122	23,831	(21,646)	(7,113)	(1,417)	(6,345)
Miscellaneous	2,939	2,934	(1,584)	(1,351)	(180)	(181)
Total	67,933	66,514	(45,752)	(27,873)	1,523	(5,588)
Reinsurance	37,080	36,035	(37,204)	(8,557)	2,083	(7,643)
Total	105,013	102,549	(82,956)	(36,430)	3,606	(13,231)

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

All premiums were concluded in the UK.

Total commissions for direct insurance accounted for in the year amounted to £19,885,103 (2011: £22,941,971)

The geographical analysis of gross written premiums by destination is:

	2012 £000	**2011 £000**
UK	12,533	17,022
Other EU countries	4,928	2,890
Other	73,667	85,101
Total	91,128	105,013

2. CLAIMS OUTSTANDING

	Reported **£000**	IBNR **£000**	Total **£000**
2012			
Gross claims	112,263	51,789	164,052
Reinsurance	(41,247)	(6,028)	(47,275)
Net claims	71,016	45,761	116,777
2011			
Gross claims	39,058	38,639	77,697
Reinsurance	(9,771)	(10,686)	(20,457)
Net claims	29,287	27,953	57,240

The movement in net provision for claims in 2012 includes a release of £0.5 million in respect of business earned in 2011 and prior years. In 2011 there was a strengthening of £4.9 million for the International Third Party Liability business earned in 2010 and prior years.

3. NET OPERATING EXPENSES

	2012 £000	2011 £000
Acquisition costs	24,459	27,691
Change in deferred acquisition costs	1,898	(1,074)
Reinsurers' commissions and profit participation	(2,169)	(1,228)
Administrative expenses	9,151	9,548
(Profit)/loss on exchange	(179)	265
	33,160	35,202

Administrative expenses		
Salaries and related costs	1,193	2,077
Social security costs	169	246
Pension costs	104	195
Syndicate auditors' remuneration – Audit services	201	134
Syndicate auditors' remuneration – Other services	140	45
Personal expenses	854	1,411
Other expenses	6,490	5,440
	9,151	9,548

The average number of employees working on the Syndicate during the year was as follows:

	2012	2011
Administration and finance	5	6
Underwriting	10	14
Claims	7	17
	22	37

All staff are employed by HCC Service Corporation (UK). Included in the costs above are staff whose costs are wholly incurred for the Syndicate. The costs of staff providing central services for Group companies are allocated and recharged to the Syndicate as a management fee. These employees are not included in salary costs and average staff numbers.

4. EMOLUMENTS OF THE DIRECTORS OF HCC UNDERWRITING AGENCY LTD.

The directors of HCC Underwriting Agency Ltd. received the following aggregate remuneration recharged to the Syndicate by HCC Service Corporation (UK), and included within net operating expenses:

	2012 £000	2011 £000
Emoluments	373	224
Pension contributions	21	10
	394	234

	2012 £000	2011 £000
The amounts in respect of the highest paid director are as follows:		
Emoluments	155	66
Pension contributions	-	-
	155	66

The number of directors to whom retirement benefits are accruing are 4 (2011: 4). Included in the emoluments above is a recharge of £154,894 (2011: £65,831) for the services of the Active Underwriter. No pension contributions for the Active Underwriter were recharged to the Syndicate.

5. INVESTMENT INCOME

	2012 £000	2011 £000
Investment income		
Income from investments	3,157	653
Gains on the realisation of investments	53	29
	3,210	682

	2012 £000	2011 £000
Investment expenses and charges		
Investment management expense	(63)	(17)
Losses on the realisation of investments	(249)	-
	(312)	(17)

The average amount of Syndicate funds available for investment and the investment return and yield were as follows:

	2012	2011
Average fund	121,539	36,639
Investment return	4,659	848
Calendar year investment yield	3.83%	2.31%

The Average fund is the average of bank balances, overseas deposits and investments held on behalf of the capacity provider of the Syndicate at the end of each quarter during the calendar year. For this purpose, investments are revalued at quarter end market prices which include accrued income where appropriate.

The investment return includes unrealised investment gains and losses.

Analysis of calendar year investment yield by currency:

		2012			2011	
	Return £000	Fund £000	Yield	Return £000	Fund £000	Yield
Australian dollars	2,111	38,633	5.46%	440	7,664	5.74%
Canadian dollars	51	4,912	1.04%	25	2,518	0.99%
Euros	362	9,016	4.01%	9	1,234	0.73%
Sterling	1,586	40,134	3.95%	93	4,900	1.89%
United States dollars	549	28,844	1.91%	281	20,332	1.38%

6. OTHER FINANCIAL INVESTMENTS

	Market value		Cost	
	2012 £000	2011 £000	2012 £000	2011 £000
Shares and other variable yield securities and units in trusts	11,032	10,216	11,032	10,216
Debts securities and other fixed income securities	62,729	17,269	61,891	17,143
Deposits with credit institutions	4,812	-	4,812	-
	78,573	27,485	77,735	27,359

Of the above, £62,729,000 (2011: £17,269,000) are listed on a recognised exchange.

7. DEBTORS ARISING OUT OF DIRECT INSURANCE OPERATIONS

	2012 £000	2011 £000
Due from intermediaries within one year	20,593	24,554

8. OTHER DEBTORS

	2012 £000	2011 £000
Amounts due within one year		
HCC Group Companies	561	4,009
Coinsurer	463	-
Other	548	272
	1,572	4,281

9. OTHER ASSETS

Other assets comprise of overseas deposits which are lodged as a condition of conducting underwriting business in certain countries.

10. OTHER CREDITORS

	2012 £000	2011 £000
Amounts due within one year		
Inter syndicate loans	-	1,367
HCC Group Companies	1,323	620
Other	425	29
	1,748	2,016

11. RECONCILIATION OF MEMBER'S BALANCE

	2012 £000	2011 £000
At 1 January	(14,626)	(925)
Profit/(loss) for the financial year	12,920	(12,383)
Foreign currency exchange (loss)/gains on retranslation	(692)	180
Loss/(profit) distribution	872	(1,498)
Member's balance carried forward at 31 December	(1,526)	(14,626)

Members participate by reference to years of account and their ultimate result, assets and liabilities are assessed with reference to policies incepting in that year of account.

12. RECONCILIATION OF OPERATING PROFIT/(LOSS) TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2012 £000	2011 £000
Operating profit/(loss) on ordinary activities	12,920	(12,382)
Realised and unrealised investment losses/ (gains)	1,999	(755)
Increase in net technical provisions	54,486	36,445
Decrease/(increase) in debtors	6,681	(10,514)
Decrease/(increase) in prepayments & accrued income	920	(1,220)
Increase in creditors	1,702	7,838
Other movements – foreign currency retranslation	(692)	180
Net cash inflow from operating activities	78,016	19,592

13. MOVEMENT IN OPENING AND CLOSING PORTFOLIO INVESTMENTS NET OF FINANCING

	2012 £000	2011 £000
Cash flow		
Increase in cash holdings	901	-
Increase in overseas deposits	25,922	8,872
Increase in portfolio investments	52,065	9,222
Movement arising from cash flows	78,888	18,094
Changes in market value and exchange rates	(1,999)	755
Total movement in portfolio investments	76,889	18,849
Portfolio at 1 January	46,706	27,857
Portfolio at 31 December	123,595	46,706

	At 1 January 2012 £000	Cash flow £000	Changes to market value and currencies £000	At 31 December 2012 £000
Cash at bank and in hand	1,968	901	(33)	2,836
Overseas deposits	17,253	25,922	(989)	42,186
Shares and other variable yield securities	10,216	1,160	(344)	11,032
Debt securities and other fixed income securities	17,269	46,093	(633)	62,729
Deposits with credit institutions	-	4,812	-	4,812
Total cash and portfolio investments	46,706	78,888	(1,999)	123,595

14. NET CASH OUTFLOW ON PORTFOLIO INVESTMENTS

	2012 £000	2011 £000
Purchase of shares and other variable yield securities	(1,161)	-
Purchase of debt securities and other fixed income securities	(70,464)	(21,888)
Purchase of deposits with credit institutions	(4,812)	-
Sale of shares and other variable yield securities	-	7,376
Sale of debt securities and other fixed income securities	24,372	5,290
Net cash outflow on portfolio investments	(52,065)	(9,222)

15. RELATED PARTIES

a. The Managing Agent, HCC Underwriting Agency Ltd., is a wholly-owned subsidiary of HCCL Holdings Ltd. The Syndicate transacts business with agencies that are owned by the HCC group (see Note d.). The ultimate parent company of HCC Underwriting Agency Ltd. is HCC Insurance Holdings, Inc., a company incorporated in the USA and listed on the New York Stock Exchange. The consolidated accounts of HCC Insurance Holdings, Inc. may be obtained from the company's principal office at 13403 Northwest Freeway, Houston, Texas 77040 – 6094, USA.

Managing agency fees of £150,000 (2011: £150,000) were paid by the Syndicate to HCC Underwriting Agency Ltd. An amount of £103,532, (2011: £21,534) was due to HCC Underwriting Agency Ltd at the balance sheet date. In addition to this, £6,958,764 (2011: £7,210,676) was paid to HCC Service Corporation (UK) for expenses paid on behalf of the Syndicate. An amount of £405,386 (2011: £1,113,305) was due from HCC Service Corporation (UK) at the balance sheet date.

The Syndicate shares a reinsurance program with the other HCC International carriers. Reinsurance premiums are allocated pro rata to risk weighted gross written premiums, and reinsurance recoveries are shared by reference to the share of gross loss by carrier.

b. Nameco (No. 808) Limited (Nameco) provides the entire capacity of Syndicate 4141. The immediate controller of Nameco is HCC Intermediate Holdings, Inc., and the ultimate controller is HCC Insurance Holdings, Inc.. £141,875 (2011: £50,775) was due from Nameco 808 at the balance sheet date.

c. Full delegated underwriting authorities have been provided to a number of entities within the HCC group including HCC Specialty Ltd., HCC Medical Insurance Services, HCC Insurance Services Ltd. and HCC Global Financial Products S L. These arrangements have produced:

	2012 £000	**2011 £000**
Premium Income	37,816	39,473
Commissions	16,780	16,235
Balance due	2,499	5,531

d. HCC Claims Services Ltd. (HCCCSL) provides claims and administrative services to the syndicate. The total expenses charged to the syndicate were £432,497 (2011: £720,561), and the balance due to HCCCSL at the balance sheet date was £88,903 (2011: £2).

e. The following directors are also directors of HCC International Insurance Company PLC (HCCI), a wholly owned subsidiary of the HCC group:

J H Bishop
B J Cook (Chairman and Chief Executive Officer)
K J Cordier
J R Davidson
T J G Hervy
N I Hutton-Penman (Chief Operating Officer)
K L Letsinger (Group Chief Financial Officer)
J L T Newbegin
W R Treen

The balance due to HCCI at the balance sheet date was £1,126,142 (2011: £1,963,936).

16. FUNDS AT LLOYD'S

Every member is required to hold capital at Lloyd's which is held in trust and known as Funds at Lloyd's (FAL). These funds are intended primarily to cover circumstances where Syndicate assets prove insufficient to meet participating members' underwriting liabilities.

The level of FAL that Lloyd's requires a member to maintain is determined by Lloyd's based on FSA requirements and resource criteria. FAL has regard to a number of factors including the nature and amount of risk to be underwritten by the member and the assessment of the reserving risk in respect of business that has been underwritten. Since FAL is not under the management of the Managing Agent, no amount has been shown in these financial statements by way of such capital resources. However, the Managing Agent is able to make a call on the members' FAL to meet liquidity requirements or to settle losses.