HCC

2014 Annual Report and Accounts
Syndicate 4141

HCC Underwriting Agency Ltd

HCC

ANNUAL REPORT AND ACCOUNTS

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DIRECTORS AND ADVISORS

Managing Agent:	HCC Underwriting Agency Ltd
Registered Office:	Walsingham House 35 Seething Lane London EC3N 4AH
Registered No:	4632146
Directors:	S A Button B J Cook K J Cordier T J G Hervy N I Hutton-Penman (Chief Executive Officer) K L Letsinger N C Marsh (Non-executive Chairman) J L T Newbegin (Non-executive Director) H-D Rohlf (Non-executive Director) W R Treen (Non-executive Director)
Syndicate:	Syndicate 4141
Active Underwriter:	S A Button
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

REPORT OF THE DIRECTORS OF THE MANAGING AGENT

The directors of the Managing Agent present their report and the audited financial statements of Syndicate 4141 (the “Syndicate”) for the year ended 31 December 2014 (“Annual Report and Accounts”).

The Annual Report and Accounts have been 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 Syndicate is managed by HCC Underwriting Agency Ltd which is authorised by the Prudential Regulation Authority and regulated by both the Financial Conduct Authority and the Prudential Regulation Authority. The principal activity of the Syndicate remains the transaction of general insurance and reinsurance business in the United Kingdom and it operates solely within the Lloyd’s market from its offices in London. The Syndicate trades through Lloyd’s worldwide licences and benefits from the Lloyd’s brand. Lloyd’s has an A (Excellent) rating from A.M. Best and A+ (Strong) ratings from Fitch Ratings and Standard & Poor’s Financial Services LLC.

The Syndicate’s immediate parent company is Nameco (No. 808) Limited and its ultimate parent company is HCC Insurance Holdings, Inc. (HCCIH), whose head office is in Houston, Texas. HCCIH is a leading international specialty insurance group with offices across the United States and internationally. As of 31 December 2014 HCCIH had total assets of US$10.7 billion and shareholders’ equity of US$3.9 billion. HCCIH and its subsidiary insurance companies have a financial strength rating of AA (Very Strong) from Standard & Poor’s Financial Services LLC.

The Syndicate is used by HCC underwriters to write business based on prescribed rules that determine which HCC carrier is utilised, the main determinate of carrier being licensing, distribution or client choice. Lines underwritten include Property Treaty, Property Direct and Facultative, Accident and Health, Energy, General Liability, Marine Hull and Financial Lines. In addition, the Syndicate exclusively underwrites Travel Medical business on behalf of the Group’s wholly-owned agency, HCC Medical Insurance Services (HCCMIS), based in Indiana, USA. Financial Lines is similarly underwritten via HCC Global Financial Products S.L. (HCCG), whilst the Syndicate’s Contingency and additional Accident and Health business is underwritten via a consortium arrangement managed by HCC Specialty Ltd.

Strategy

The Syndicate’s business philosophy is to maximise underwriting profits whilst limiting risk in order to preserve its Member’s equity and maximise earnings. Our strategic focus is to generate underwriting profit which meets HCCIH’s risk adjusted return on capital target. Insurance underwriting is concentrated in selected, narrowly defined, speciality lines of business where it is believed underwriting profit can be achieved. Our experienced underwriting personnel with access to, and expertise in, the insurance and reinsurance marketplace have enabled the Syndicate to achieve its strategic objectives. Continued increase in premium income is expected as the current portfolio of business is developed, but only if target returns can be achieved.

Market conditions and future developments

We retain an appetite to grow the Syndicate should the prevailing market conditions and any opportunities presented be such as to enable us to meet our financial targets. HCCIH sees the London Market as a desirable strategic growth area and we will continue to utilise our Lloyd’s platform for growth opportunities as and when they arise.

REPORT OF THE DIRECTORS OF THE MANAGING AGENT

Business review

Results and performance

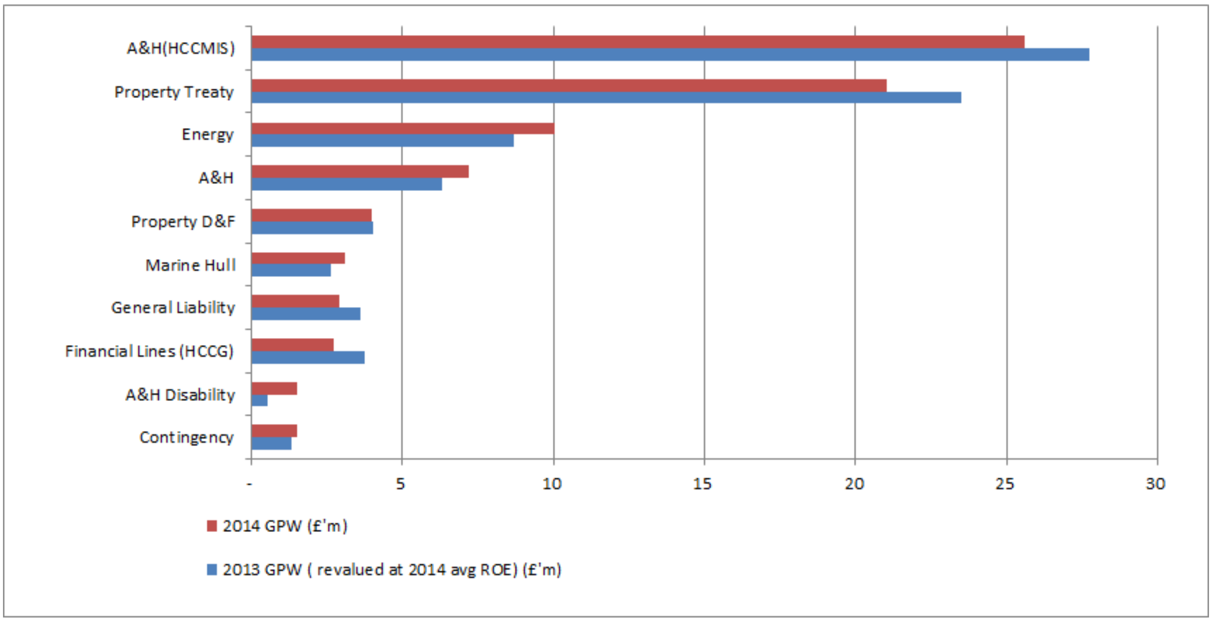
The Syndicate made a profit for the financial year of £6.5m (2013: £12.5m), as set out on pages 13 and 14. As in 2013, the Syndicate benefitted from the relatively benign catastrophe environment in 2014 with no significant catastrophe loss impact, but did experience several large losses, particularly towards the end of 2014. Prior year reserve movements resulted in a £4.1m strengthening in 2014, compared to a £0.5m release in 2013 (see Note 2).

The US dollar average exchange rate weakened in 2014 to $1.65 = £1, from $1.57 in 2013. This reduced the value of US dollar income and expenses when translated into reporting pounds sterling.

Gross written premium totalled £80.7m compared to £86.9m in 2013. The £6.2m decrease in premium includes a £5.0m reduction due to FX. The remaining £1.2m reduction was spread across a number of the lines of business written by the Syndicate, but most significantly affected were Property Treaty and Accident and Health, offset partly by growth in Energy. The rating environment in general was difficult during 2014 and we expect the same in 2015. We will not grow premium if we do not believe pricing is at a level that will meet our targeted returns.

The largest line of business underwritten by the Syndicate continues to be Accident and Health, followed closely by Property Treaty. The Accident and Health premium is driven by the Travel Medical business written on behalf of the Syndicate by HCCMIS. HCCMIS operates in a very competitive market place and in recent years has withdrawn from certain products that were not achieving target returns. Offsetting this reduction in premium was the continued growth in the short term travel medical product Atlas, which is sold to travellers around the world via the internet.

The following bar chart shows 2014 gross premium written for the Syndicate's principal lines of business compared to prior year:



Investment return was higher in 2014 at £2.6m (2013: £1.0m). This increase was driven by net unrealised gains of £0.4m (2013: £1.0m losses) and £0.3m higher investment income due to the increase in the size of the portfolio.

Key performance indicators (KPIs)
The Managing Agent monitors a number of KPIs for the business:

	2014 £m	2013 £m	Change %
Cash and investments	109.7	104.1	5.4%
Gross written premiums	80.7	86.9	(7.2%)
Underwriting result (excl. investment return)	3.8	11.6	(67.2%)
Profit for the financial year	6.5	12.5	(48.4%)
Net loss ratio	56.7%	45.0%	11.7pts
Combined ratio (excl. investment return)	94.3%	85.1%	9.2pts
Investment return	2.6	1.0	160.0%

Overall, the directors are satisfied with the financial position of the Syndicate as at the year end.

Business Line Synopsis
Accident and Health
The largest line of business written, Accident and Health, is comprised principally of the Travel Medical business written by HCCMIS. The overall environment for our Accident and Health portfolio is very competitive with plentiful capacity in many of the markets we operate in, offering prices below our benchmarks. We, however, maintain our underwriting discipline and target areas of the market in which we believe we can make long term returns. Our short term travel medical product, sold via the internet, continues to generate increased growth.

Property Treaty
The Property Treaty account continues to perform well despite the reduction in premium written in 2014. We continue to maintain our underwriting strategy of supporting clients well known to us and offering capacity on higher layers of our clients' programs. This strategy has been successful and our historic loss experience compares favourably with that of our peers. Market pressure on rates and terms and conditions continues. However, we have a clear return orientated strategy and we will only support accounts that we believe will achieve good returns over the cycle. The continued increasing capacity in the reinsurance market, contributed to by the influx of collateralised markets, contribute to the overall challenging market conditions.

Energy
The Energy portfolio is substantially comprised of Canadian exposures. We do not write Gulf of Mexico exposed business in the Syndicate.

General Liability
In general, market conditions remain very competitive and we are prepared to lose business to competitors who accept risks often at considerable discounts to our benchmark price. Premium for the 2014 underwriting year is again well below that of the previous year as we continue to reposition the book to that of higher volume, low premium business which is less exposed to large losses frequency. The portfolio is now predominantly UK domiciled risks with better results than the historic portfolio. We are now considering opportunities to selectively underwrite profitable General Liability in certain overseas territories. In 2015 we expect to see a slight improvement in market conditions, along with an improvement in economic conditions which will result in some organic growth. We continue to run-off the Australian portfolio which we assumed when Syndicate 4040 was reinsured into Syndicate 4141 at the close of the 2009 underwriting year.

Other lines
The remainder of the business volume is comprised of London Market Contingency, Financial Lines, Marine Hull and Property Direct and Facultative business. We remain conservative in our underwriting of these lines and we will continue to use the Lloyd's franchise to grow these lines.

Reinsurance
Reinsurance to cover catastrophe exposed lines is purchased by segment on a shared basis for the international insurance entities. Reinsurance premiums on excess of loss programmes are allocated across HCC UK platforms based on gross written premiums. Reinsurance recoveries are allocated based on the share of gross losses suffered by each carrier. Purchases of the shared reinsurance programme are advised to both Lloyd's and the Prudential Regulation 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 capital assessment process. The Managing Agent 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:

<u>Insurance risk</u>
Insurance risk represents the risk that:

- a policy is written for too low a premium, or provides inappropriate cover (underwriting risk); and
- the estimate of claims subsequently proves to be insufficient (reserving risk), for example if the frequency or severity of insured events is higher than expected.

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 retentions by class of business. The Board then monitors performance against business plan through the year. Reserve adequacy is monitored quarterly by the Board.

The process of risk acceptance and risk management is addressed through a framework of policies, procedures and internal controls. These policies are subject to Board approval and on-going review by the Risk and Capital Management Committee. Compliance with regulation, legal, conduct and ethical standards is a high priority for the Syndicate and the Enterprise Risk, Compliance and Finance teams take an important oversight role in this regard.

A framework has been developed for identifying the risks that each business sector is exposed to and their impact on economic capital through the Risk and Capital Management Committee. This process is risk-based and utilises capital assessment principles to manage capital requirements and to ensure the Syndicate has the financial strength and capital adequacy to support the business and its future development and to meet the requirements of our Member as well as policyholders, regulators and rating agencies.

The Syndicate's activities also expose it to a number of financial risks, in particular the risk that the proceeds from financial assets are not sufficient to fund the obligations arising from policies as they fall due. The key components of financial risk are *market risk*, which includes *foreign exchange risk and interest rate risk, credit risk and liquidity risk.*

<u>Foreign exchange risk</u>

Foreign currency risk represents the Syndicate's exposure to foreign currency losses as a result of mismatches of individual currencies in which assets and liabilities are denominated. This risk is managed through matching of of assets and liabilities by currency.

<u>Interest rate risk</u>

Interest rate risk represents the effect of the change in interest rates on the valuation of the Syndicate's fixed interest securities. The investment strategy of the Syndicate is to match overall duration of its investments with claim liabilities and, generally, to hold the investments until they mature. Such an approach limits the Syndicate's exposure to short term volatility in interest rates.

Credit risk

Credit risk represents the potential inability of a counterparty to pay amounts in full when due. Key areas where the Syndicate is exposed to credit risk are:

- amounts due from policyholders;
- amounts due from intermediaries (e.g. brokers);
- reinsurers' share of insurance liabilities;
- amounts due from reinsurers in respect of claims already paid; and
- investment in fixed income securities and cash and deposits held at banks.

The Syndicate places a limit on its exposures to a single counterparty or group of counterparties. The payment history and financial security of the policyholders and intermediaries are reviewed when assessing credit risk.

Reinsurance is used to manage insurance risk. This does not, however, discharge the Syndicate's liability as primary insurer. If a reinsurer fails to pay a claim, the Syndicate remains liable for the payment to the policyholder. The Syndicate will only reinsure with reinsurers that are either on HCC's approved security listing or are specially accepted by the HCC Group Security Committee. All new reinsurers are assessed before business is placed with them. The creditworthiness of reinsurers is considered on an on-going basis, not just prior to finalisation of any contract.

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 as at the time of purchase.

Liquidity risk

Liquidity risk represents the risk that sufficient financial resources are not maintained to meet liabilities as they fall due. 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, taking into account the cash flow needs of the Syndicate.

Operational risk

Operational risk represents the risk of a loss resulting from inadequate or failed internal process, people and systems, or from external events. The Syndicate seeks to manage this risk through the use of detailed procedure manuals and a structured programme of identifying and validating processes and systems by Enterprise Risk Management.

Regulatory risk

Regulatory risk represents the risk of loss arising from a breach of regulatory requirements, or failure to respond to regulatory change. The Syndicate is required to comply with the requirements of the Prudential Regulation Authority, Financial Conduct 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. The Syndicate has a Compliance team that monitors regulatory developments and assesses the impact on Agency policy.

Group risk

Group risk represents the potential impact of risk events, of any nature, arising elsewhere in our Group which could adversely affect the Syndicate's business, reputation and financial position.

REPORT OF THE DIRECTORS OF THE MANAGING AGENT

Directors
The directors of the Managing Agent who were in office during the year and up to the date of signing the financial statements were:

J H Bishop FIA (resigned 31 March 2014)
S A Button
B J Cook
K J Cordier
J R Davidson (resigned 30 June 2014)
T J G Hervy
N I Hutton-Penman BSc, ACA
K L Letsinger BSc, CPA
N C Marsh (appointed 1 April 2014)
J L T Newbegin
H-D Rohlf (appointed 16 January 2014)
W R Treen BSc, FIA

Directors' interests
No director participated in the Syndicate.

Financial information on HCC Underwriting Agency Ltd.
Summary financial income of the Syndicate's Managing agent, HCC Underwriting Agency Ltd, is set out below:

	2014 £000 (unaudited)	2013 £000
Managed capacity	120,000	130,739
Fee income	150	150
Expenses net of recharges	(59)	(102)
Other expense	(6)	(3)
Profit before tax	85	45
Net assets	874	807

A copy of the Managing Agent's financial statements are available for inspection at its registered office.

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 Syndicate's Investment Managers, the investment policy for approval by the Board. It is also responsible for monitoring investment performance and recommending the appointment of Investment managers.

The Syndicate maintains funds in US dollars, Sterling, Canadian dollars, Euros and Australian dollars. Certain national regulators have 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 Syndicate's control within the framework laid down by the Prudential Regulation Authority.

General Re-New England Asset Management has been investment managers for the US dollar, Sterling and Euro funds throughout the year. Each fund consists primarily of a portfolio of highly rated Corporate Bonds which are rated BBB and above, including Bonds guaranteed by the US, UK, German and Canadian governments. The average duration of the aggregate funds at the year end was 2.22 years (2013: 2.64 years).

The annualised investment return on managed funds was 1.3% for the US dollar portfolios, 2.7% for the Sterling portfolio and 3.6% for the Euro portfolio. The US dollar portfolios outperformed the benchmark due mainly to the performance of the credit and structured sectors in which the portfolio had a strategic overweight. Investment in these sectors allowed for increased levels of income as well as a positive price performance. The return on the Sterling portfolio lagged the benchmark, despite a positive contribution from an overexposure to the credit sector, due to the short duration of the portfolio compared to the benchmark which limited the upside in a rallying bond market. The return on the Euro portfolio outperformed the benchmark due to the positive contribution from overexposure to quasi-government and coporate bonds.

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

Other matters
No consents have been requested from 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 4141 Annual Report and 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.

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 Lloyd’s website. Legislation in the UK governing the presentation and dissemination of financial statements may differ from legislation in other jurisdictions.

REPORT OF THE DIRECTORS OF THE MANAGING AGENT

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 auditors in connection with its report, of which the auditors are unaware. Having made enquiries of fellow directors of the Agency, each director has taken all the steps that they are obliged to take as a director in order to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

Independent Auditors
PricewaterhouseCoopers LLP will be reappointed as the Syndicate's auditors.

Annual General Meeting
The directors do not propose to hold a Syndicate Annual General Meeting during 2015, 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 2015

INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF SYNDICATE 4141

Our Opinion
In our opinion the syndicate annual accounts, defined below:

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2014 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.

What we have audited
The syndicate annual accounts for the year ended 31 December 2014, which are prepared by the Managing Agent, comprise:

- the Profit and Loss account for the year ended 31 December 2014;
- the statement of total recognised gains and losses for the year then ended;
- the Balance Sheet as at 31 December 2014;
- statement of cash flows;
- the statement of accounting policies; and
- the notes to the syndicate annual accounts.

The financial reporting framework that has been applied in the preparation of the syndicate annual accounts is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Opinion on 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.

Other matters on which we are required to report by exception
Under The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

Responsibilities for the syndicate annual accounts and the audit

Our responsibilities and those of the Managing Agent
As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 9, the Managing Agent is responsible for the preparation of syndicate annual accounts and for being satisfied that they 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) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the syndicate's members 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.

What an audit of syndicate annual accounts involves

We conducted our audit in accordance with ISAs (UK & Ireland). 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.

We primarily focus our work in these areas by assessing the Managing Agent's judgements against available evidence, forming our own judgements, and evaluating the disclosures in the syndicate annual accounts.

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

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

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

12 March 2015

PROFIT AND LOSS ACCOUNT:
TECHNICAL ACCOUNT – GENERAL BUSINESS
for the year ended 31 December 2014

	Notes	£000	2014 £000	£000	2013 £000
Earned premiums, net of reinsurance					
Gross premiums written	1	80,712		86,939	
Outward reinsurance premiums		(15,202)		(14,328)	
Net premiums written		65,510		72,611	
Change in the provision for unearned premiums					
Gross amount		2,153		5,024	
Reinsurers' share		164		(137)	
Change in the net provision for unearned premiums		2,317		4,887	
Earned premiums, net of reinsurance			67,827		77,498
Investment return transferred from the non-technical account			2,631		951
Claims incurred, net of reinsurance					
Claims paid					
Gross amount		(58,103)		(65,837)	
Reinsurers' share		11,643		18,688	
Net claims paid		(46,460)		(47,149)	
Change in the provision for claims					
Gross amount		4,279		(1,519)	
Reinsurers' share		3,744		13,826	
Change in the net provision for claims		8,023		12,307	
Claims incurred, net of reinsurance	2		(38,437)		(34,842)
Net operating expenses	3		(25,551)		(31,072)
Balance on the technical account for general business			6,470		12,535

All amounts relate to continuing operations.

PROFIT AND LOSS ACCOUNT:
NON-TECHNICAL ACCOUNT
for the year ended 31 December 2014

	Notes	2014 £000	2013 £000
Balance on the general business technical account		6,470	12,535
Investment income	5	2,271	1,978
Unrealised gains on investments	5	407	-
Investment expenses and charges	5	(47)	(59)
Unrealised losses on investments	5	-	(968)
Investment return transferred to general business technical account		(2,631)	(951)
Profit for the financial year		6,470	12,535

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
for the year ended 31 December 2014

	2014 £000	2013 £000
Profit for the financial year	6,470	12,535
Foreign currency exchange loss on retranslation	(319)	(686)
Total recognised gains	6,151	11,849

BALANCE SHEET
as at 31 December 2014

	Notes	£000	2014 £000	£000	2013 £000
ASSETS					
Investments					
Other financial investments	6		68,534		62,947
Reinsurers' share of technical provisions					
Provision for unearned premiums		4,367		4,046	
Claims outstanding	11	64,885		60,354	
			69,252		64,400
Debtors					
Debtors arising out of direct insurance operations	7	18,001		20,595	
Debtors arising out of reinsurance operations		5,552		3,954	
Other debtors	8	5,535		2,357	
			29,088		26,906
Other assets					
Cash at bank and in hand		4,815		771	
Overseas deposits	9	36,365		40,334	
			41,180		41,105
Prepayments and accrued income					
Accrued interest		848		861	
Deferred acquisition costs		6,904		6,514	
Other prepayments and accrued income		-		13	
			7,752		7,388
Total assets			215,806		202,746

BALANCE SHEET
as at 31 December 2014

	Notes	£000	2014 £000	£000	2013 £000
LIABILITIES					
Member's balance	10		18,602		3,858
Technical provisions					
Provision for unearned premiums		24,416		25,712	
Claims outstanding	11	155,728		157,998	
			180,144		183,710
Creditors					
Creditors arising out of direct insurance operations		3,479		1,572	
Creditors arising out of reinsurance operations		5,904		6,455	
Other creditors including taxation and social security	12	6,522		5,563	
			15,905		13,590
Accruals and deferred Income			1,155		1,588
Total liabilities			215,806		202,746

The annual accounts were approved by the Board of HCC Underwriting Agency Ltd and signed on its behalf by

K L Letsinger
Director
12 March 2015

STATEMENT OF CASH FLOWS
for the year ended 31 December 2014

	Notes	2014 £000	2013 £000
Net cash (outflow) from operating activities	13	(3,783)	(4,229)
Financing:			
Loss/(profit) distribution	10	8,593	(6,465)
Net cash inflow/(outflow)		4,810	(10,694)

Cash flows were invested as follows:			
Increase/(Decrease) in cash holdings		4,073	(1,944)
(Decrease)/increase in overseas deposits		(4,072)	3,693
Increase/(Decrease) net portfolio investments		4,809	(12,443)
Net investment of cash flows	14	4,810	(10,694)

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.

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

BASIS OF ACCOUNTING

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 best estimate using statistical methods.

These methods generally involve projecting from past experience 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.

ACCOUNTING POLICIES

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 year 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 year, in respect of contracts concluded before that date, are expected to exceed the unearned premiums under those 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
The accounting records are maintained in Sterling, US dollars, Australian dollars, Canadian dollars and Euros which are the Syndicate's functional currencies. Foreign currency transactions are translated into the Syndicate's functional currencies using the exchange rates prevailing at the date of the transactions. Monetary assets and liabilities are revalued at year end rates and non-monetary assets and liabilities are recorded at historic rates. Foreign exchange gains and losses arising from the revaluation of foreign currencies into the Syndicate's functional currencies, together with settlement of foreign currency transactions, are recognised in the Profit and Loss Account. Foreign exchange gains and losses arising from the translation from functional currencies to the reporting currency, which is Sterling, are recognised in the Statement of Total Recognised Gains and Losses.

The foreign exchange rates used for translation to the reporting currency are set out below.

a) assets and liabilities at the closing rate at the balance sheet date which for Sterling was £1 = US$1.5535 (2013: US$1.6491), =AUD$ 1.9043 (2013: AUD$1.8581), =CDN$1.8062 (2013: $1.7636), = EUR€1.2779 (2013: EUR€1.1978).
b) income and expenses at the average rate during the year which for Sterling was £1 = US$1.65 (2013: $1.57), =AUD$1.83 (2013: AUD$1.63), =CDN$1.82 (2013: CDN$1.62), = EUR€1.24 (2013: EUR$1.18).

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, which is reported in the profit and loss account, comprises all investment income (including the amortisation of premium or discount for fixed income securities), realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses, charges and interest payable.

ACCOUNTING POLICIES

Realised gains and losses on investments carried at fair value are calculated as the difference between net sale proceeds and purchase price, or amortised cost for fixed income securities. Unrealised gains and losses on investments represent the difference between the fair value at the balance sheet date and purchase price or amortised cost for fixed income securities, together with the reversal of unrealised gains and losses recognised in earlier 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 general business technical account. Investment return has been wholly allocated to the technical account as all investments relate to the technical account.

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
Expenses which are incurred jointly for the Managing Agent and managed Syndicate are apportioned between the Managing Agent 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.

Pension costs
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 allocated investment return is set out below:

2014	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	31,113	33,430	(17,892)	(11,956)	345	2,637
Marine aviation and transport	4,563	3,962	(1,002)	(2,011)	191	(27)
Motor (third party liability)	-	-	940	(60)	(717)	164
Fire and other damage to property	5,778	5,547	(2,387)	(1,145)	169	1,481
Third party liability	5,561	6,217	(7,178)	(2,879)	3,823	(2,366)
Miscellaneous	1,511	1,808	(611)	(513)	449	56
Total direct	48,526	50,964	(28,130)	(18,564)	4,260	1,945
Reinsurance assumed	32,186	31,901	(25,694)	(6,987)	11,128	1,894
Total	80,712	82,865	(53,824)	(25,551)	15,388	3,839
Investment income						2,631
Technical account						6,470

2013	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	32,629	37,637	(21,433)	(17,770)	(891)	(2,457)
Marine aviation and transport	3,769	3,932	(1,005)	(1,129)	(807)	991
Motor (third party liability)	-	-	(911)	(3)	929	15
Fire and other damage to property	5,373	5,676	(1,480)	(1,243)	(619)	2,334
Third party liability	7,209	7,216	(29,953)	(2,208)	25,557	612
Miscellaneous	1,707	1,742	(580)	(897)	(28)	237
Total direct	50,687	56,203	(55,362)	(23,250)	24,141	1,732
Reinsurance assumed	36,252	35,760	(11,994)	(8,964)	(4,950)	9,852
Total	86,939	91,963	(67,356)	(32,214)	19,191	11,584
Investment income						951
Technical account						12,535

The reinsurance balance represents the (charge)/credit to the technical account from the aggregate of all items relating to reinsurance outwards. Total commissions for direct insurance amounted to £14,299,956 (2013: £16,927,541).

All premiums were concluded in the UK.

The geographical analysis of gross premiums written by destination is:

	2014 £000	2013 £000
UK	10,974	11,476
Other EU countries	3,482	4,035
Rest of the world	66,256	71,428
Total	80,712	86,939

2. MOVEMENT IN PRIOR YEARS' PROVISION FOR CLAIMS OUTSTANDING

Net claims incurred includes prior accident year reserve strengthening totaling £4.1 million (2013: £0.5m release).

3. NET OPERATING EXPENSES

	2014 £000	2013 £000
Acquisition costs	19,073	21,909
Change in deferred acquisition costs	(199)	2,342
Reinsurers' commissions and profit participation	(1,616)	(1,142)
Administrative expenses (see analysis below)	9,022	8,693
Profit on exchange	(729)	(730)
	25,551	31,072

	2014 £000	2013 £000
Administrative expenses:		
Wages and salaries	1,000	1,763
Social security costs	124	207
Other pension costs	68	103
Total staff costs	1,192	2,073
Syndicate auditors' remuneration – audit services	167	169
Syndicate auditors' remuneration – other assurance services	113	110
Personal expenses	516	614
Other expenses	7,034	5,727
	9,022	8,693

All staff are employed by HCC Service Company Inc. (UK branch). The 2014 disclosures for staff costs above relate to underwriting staff only as, effective 1 January 2014, claims and underwriting support staff were categorised as central services. The costs of staff providing central services for group entities are allocated and recharged to the Syndicate as a management fee. These employees are not included in salary costs and average staff numbers, as for disclosure purposes, it is not practical to allocate these amounts to the underlying entities to which the staff provide services.

The average number of direct staff (excluding directors) working for the Syndicate during the year was as follows:

	2014 Number	2013 Number
Underwriting	7	8
Claims	-	4
Underwriting support	-	4
	7	16

4. DIRECTORS' EMOLUMENTS

The directors of HCC Underwriting Agency Ltd. received the following aggregate remuneration recharged to the Syndicate by HCC Service Corporation (UK). These costs are included in net operating expenses.

	2014 £000	2013 £000
Aggregate emoluments	670	477
Pension contributions (note 19)	22	20
	692	497

Included in aggregate emoluments above is £157,096 (2013: £131,623) for the services of the Active Underwriter. Pension contributions for the Active Underwriter totalled £5,222 (2013: £1,286). Pension benefits are accruing to 5 directors (2013: 5) under the Group's defined contribution scheme.

The amounts in respect of the highest paid director are as follows:

	2014 £000	2013 £000
Aggregate emoluments	206	211
Pension contributions	-	-
	206	211

5. INVESTMENT INCOME

	2014 £000	2013 £000
Investment income:		
Income from investments	2,230	1,931
Gains on the realisation of investments	41	47
	2,271	1,978

	2014 £000	2013 £000
Investment expenses and charges:		
Investment management expense	(41)	(59)
Losses on the realisation of investments	(6)	-
	(47)	(59)
Net unrealised gains on investments:		
Unrealised gains on investments	407	-
Unrealised losses on investments	-	(968)
	407	(968)
Total investment return	2,631	951

The average amount of Syndicate funds available for investment and the investment yield by currency and in total are shown below. 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 year. For this purpose, investments are revalued at quarter end market prices which includes accrued investment income.

	2014			2013		
	Return £000	Avg. Fund £000	Avg. Yield	Return £000	Avg. Fund £000	Avg. Yield
Australian dollars	1,058	23,866	4.4%	850	28,278	3.0%
Canadian dollars	89	8,828	1.0%	66	6,114	1.1%
Euros	211	5,864	3.6%	(4)	7,923	(0.1%)
Sterling	724	26,612	2.7%	196	33,625	0.6%
United States dollars	549	41,733	1.3%	(157)	32,957	(0.5%)
	2,631	106,903	2.46%	951	108,897	0.87%

6. OTHER FINANCIAL INVESTMENTS

	Fair value		Book cost	
	2014 £000	2013 £000	2014 £000	2013 £000
Shares and other variable yield securities and units in trusts	16,307	12,107	16,307	12,107
Debts securities and other fixed income securities	52,227	50,840	52,742	51,496
	68,534	62,947	69,049	63,603

Of the above, £52,227,000 (2013: £50,840,000) is listed on a recognised exchange.

7. DEBTORS ARISING OUT OF DIRECT INSURANCE OPERATIONS

	2014 £000	2013 £000
Due from intermediaries within one year	18,001	20,595

8. OTHER DEBTORS

	2014 £000	2013 £000
Balance with group companies	4,432	942
Coinsurer	237	655
Other	866	760
	5,535	2,357

All amounts are due within one year. Amounts owed by group undertakings are short-term, unsecured, interest free and have no fixed date of repayment.

9. OVERSEAS DEPOSITS

Overseas deposits are lodged as a condition of conducting underwriting business in certain countries.

10. MEMBER'S BALANCE

	2014 £000	2013 £000
Member's balance brought forward at 1 January	3,858	(1,526)
Profit for the financial year	6,470	12,535
Foreign currency exchange loss on retranslation	(319)	(686)
Loss/(profit) distribution	8,593	(6,465)
Member's balance carried forward at 31 December	18,602	3,858

Members participate by reference to years of account. Their share of the net result, assets and liabilities are assessed based on policies incepting in each open year of account.

11. CLAIMS OUTSTANDING

	Reported £000	IBNR £000	Total £000
2014			
Gross claims	94,121	61,607	155,728
Reinsurance	(37,739)	(27,146)	(64,885)
Net claims	56,382	34,461	90,843
2013			
Gross claims	111,740	46,258	157,998
Reinsurance	(44,666)	(15,688)	(60,354)
Net claims	67,074	30,570	97,644

12. OTHER CREDITORS

	2014 £000	2013 £000
Balance with group companies	6,522	5,563

All amounts are due within one year. Amounts owed to group undertakings are short-term, unsecured, interest free and have no fixed date of repayment.

13. RECONCILIATION OF OPERATING PROFIT TO NET CASH (OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES

	2014 £000	2013 £000
Profit for the financial year	6,470	12,535
Realised and unrealised investment losses	(852)	8,849
(Decrease) in net technical provisions	(8,418)	(24,577)
(Increase) in debtors	(2,182)	(3,516)
Decrease in prepayments & accrued income	487	2,166
Increase/(decrease) in creditors	2,315	(163)
(Decrease)/increase in accruals & deferred income	(1,284)	1,163
Other movements – foreign currency loss on retranslation	(319)	(686)
Net cash (outflow)/inflow from operating activities	(3,783)	(4,229)

14. MOVEMENT IN OPENING AND CLOSING CASH AND PORTFOLIO INVESTMENTS NET OF FINANCING

	2014 £000	2013 £000
Cash flow arising from:		
Increase/(Decrease) in cash holdings	4,073	(1,944)
(Decrease)/increase in overseas deposits	(4,072)	3,693
Increase/(Decrease) in portfolio investments	4,809	(12,443)
Movement arising from cash flows	4,810	(10,694)
Changes in market value and exchange rates	852	(8,849)
Total movement in cash and portfolio investments	5,662	(19,543)
Balance at 1 January	104,052	123,595
Balance at 31 December	109,714	104,052

15. NET CASH INFLOW/(OUTFLOW) ON CASH AND PORTFOLIO INVESTMENTS

	At 1 January 2014 £000	Cash flow £000	Changes to market value and currencies £000	At 31 December 2014 £000
Cash at bank and in hand	771	4,073	(29)	4,815
Overseas deposits	40,334	(4,072)	103	36,365
Shares and other variable yield securities	12,107	3,983	217	16,307
Debt securities and other fixed income securities	50,840	826	561	52,227
Total cash and portfolio investments	104,052	4,810	852	109,714

	2014 £000	2013 £000
Purchase of shares and other variable yield securities	(3,983)	(1,588)
Purchase of debt securities and other fixed income securities	(14,312)	(6,250)
Sale /(purchase) of deposits with credit institutions	-	4,036
Sale of debt securities and other fixed income securities	13,486	16,245
Net cash (outflow)/inflow from portfolio investments	(4,809)	12,443

16. RELATED PARTIES

a. The ultimate parent company of the Syndicate 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. can be obtained at its principal office at 13403 Northwest Freeway, Houston, Texas 77040 – 6094, USA, or from its website at hcc.com/investorrelations /financials/financialreports.

b. The Syndicate incurred managing agency fees of £150,000 (2013: £150,000) from its Managing Agent, HCC Underwriting Agency Ltd (HCCUA). HCCUA is a wholly-owned subsidiary of HCCL Holdings Ltd. An amount of £37,503 (2013: £151,793) was due to HCCUA at the balance sheet date. In addition, £7,562,881 (2013: £6,842,497) was paid to HCC Service Company Inc. (UK branch) for expenses paid during the year on behalf of the Syndicate and an amount of £3,523,916 was due to (2013: £2,948,812 due to) HCC Service Company Inc. (UK branch) at the balance sheet date.

c. The Syndicate shares a reinsurance programme with the other HCC International carriers. Reinsurance premiums are pro-rated across HCC UK platforms according to their respective gross written premiums. Reinsurance recoveries are pro-rated based on the share of gross losses suffered by each carrier. The balance due to HCC International Insurance Company plc (HCCII) at the balance sheet date was £2,316,963 (2013: £1,078,453).

d. 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. An amount of £197,650 (2013: £nil) was due from Nameco at the balance sheet date.

e. The Syndicate transacts business with agencies that are owned by the HCC group. Full delegated underwriting authorities have been provided to the following HCC group entities: HCC Specialty Ltd, HCC Medical Insurance Services and HCC Global Financial Products S L. These arrangements have produced:

	2014 £000	**2013 £000**
Premium income	31,527	35,556
Commission expense	10,296	14,553
Balance due to the Syndicate at year end	5,064	1,824

f. Claims and administrative services were provided in previous years by HCC Claims Services Ltd. (HCCCSL). These services are now provided by HCC Service Company Inc. (UK branch) and during the year totalled £179,669 (2013: £260,674). There was no balance due to HCCCSL at the balance sheet date from services provided in previous years (2013: £88,903).

g. The following directors are also directors of HCCII, a wholly owned subsidiary of the HCC Group:

- J H Bishop FIA (resigned 31 March 2014)
- S A Button
- B J Cook
- K J Cordier
- J R Davidson (resigned 30 June 2014)
- T J G Hervy
- N I Hutton-Penman BSc, ACA
- K L Letsinger BSc, CPA
- N C Marsh (appointed 1 April 2014)
- J L T Newbegin
- H-D Rohlf (appointed 16 January 2014)
- W R Treen BSc, FIA

17. 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 the Syndicate's 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 Prudential Regulation Authority 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.

18. CAPITAL COMMITMENT

There were no capital commitments contracted for but not provided for at 31 December 2014 (2013: £nil).

19. PENSION COMMITMENTS

HCCIH's international operations operate a Group Self Invested Personal Pension Scheme. The assets of the pension scheme are held separately from those of HCCIH's international operations in an independently administered fund. The pension cost charged to the Profit and Loss Account for the year was £67,616 (2013: £103,131). The accrued pension cost outstanding as at 31 December 2014 was £nil (2013: £nil).