

HCC International
Insurance Company plc



TOKIO MARINE
HCC

Annual report and consolidated financial statements

Year ended 31 December 2019



HCC International Insurance Company plc Annual Report and Accounts

Year ended 31 December 2019

Delivering for Today Committed to Tomorrow



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Strategic Report

Strategic Management

Business Structure

HCC International Insurance Company plc ('HCCII') and its subsidiaries (the 'Group') is part of the Tokio Marine Group ('TM Group'), whose ultimate holding company is Tokio Marine Holdings, Inc. TM Group is a leading international insurance group located in Tokyo, Japan which has 249 subsidiaries, and 22 affiliates located worldwide, which undertake non-life and life insurance and operate within the financial and general business sector (including consulting and real estate).

As of 31 December 2019, TM Group had total assets of ¥24.4 trillion (December 2018: ¥23.3 trillion) and shareholders' equity of ¥1.9 trillion (December 2018: ¥1.9 trillion). TM Group and a number of its major insurance companies have a financial strength rating of A+ (Stable) from Standard & Poor's Financial Services LLC (S&P).

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

TMHCC International, which had Gross Written Premiums (GWP) of \$1.245bn in 2019 (2018: \$846.6m), is TMHCC Group's operating segment outside of the United States. Located in the United Kingdom and Continental Europe, TMHCC International (illustrated by the structure chart below) underwrites business on four different insurance platforms: HCCII (a UK insurance company), its wholly owned subsidiary Tokio Marine Europe S.A. (TME), (a Luxembourg insurance company),

HCC Syndicate 4141 (a wholly aligned Lloyd's syndicate) and Houston Casualty Company (London Branch). HCCII and TME have standalone S&P ratings of A+. The platform used is based on prescribed rules and client choice if licensing permits.

At 31 December 2019 the Group includes the following principal subsidiaries: TME, Qdos Holdings Limited (QHL), a UK underwriting agency and its wholly owned subsidiary, Qdos Broker and Underwriting Services Limited (QBUS), which distributes Professional Indemnity (PI), Employers and Public Liability (EL & PL) and Tax Enquiry and Liability (TEL) insurance to the UK small contractor market via Qdos Shop, an online digital distribution platform and HCCI Credit Services Limited (Credit Services). Credit Services provides data and information services to the credit insurance market. The Group is well capitalised and HCCII continues to be the flagship entity of the TMHCC International segment with a S&P rating of A+.

During 2019, the Group conducted business through HCCII's principal offices in London, its regional offices across the UK and through its branch in Switzerland. The Group's European

business was underwritten by TME through its branches in Spain, Ireland, France, Germany, Italy, Denmark, Belgium, Norway, Netherlands. European risks presented in the London Market have been underwritten through TME's branch in the UK.

The results of the Group are included within these consolidated financial statements for the years ended 31 December 2019 and 2018.

During 2019 there were further changes to the Group's structure due to a cross-border merger of TME and HCC Global Financial Products S.L. (HCCG). This followed several changes in 2018, which included the establishment of TME and the acquisition of QHL.

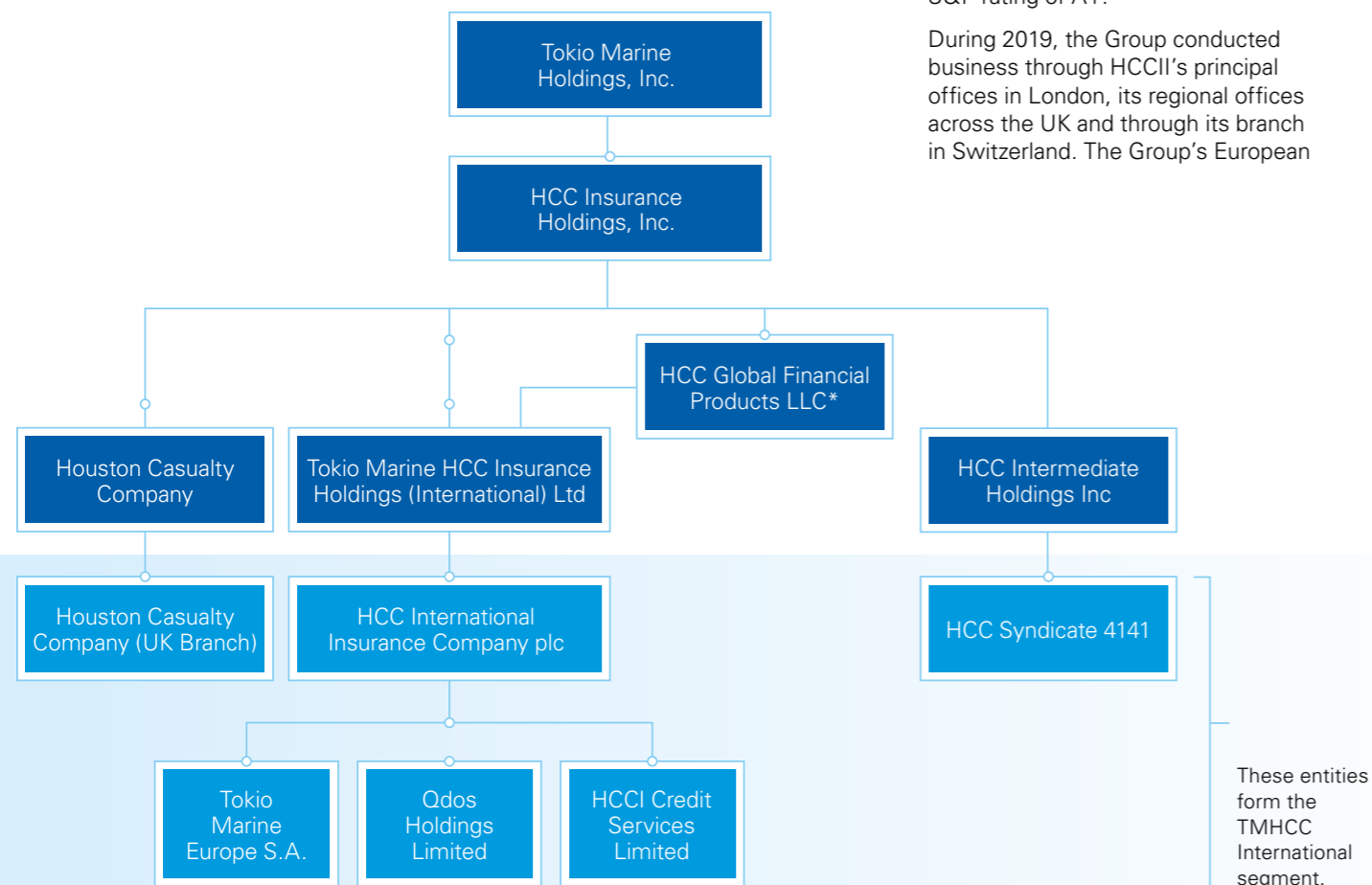
TME

TME was established in response to the United Kingdom's vote to leave the European Union (EU) in June 2016 which has resulted in the UK's exit from the EU on 31 January 2020. The triggering of Article 50 presented the TM Group with the risk that HCCII and its UK affiliate, Tokio Marine Kiln Insurance Limited (TMKI), would, upon the UK's exit from the EU, no longer be licensed to write the European business historically underwritten through their respective European branches and on a freedom of services basis in the UK.

To mitigate this risk, in 2018 HCCII established and received regulatory authorisation for TME and its European branches. The legal Part VII transfer process between HCCII, TMKI and TME was effective from 1 January 2019. This enabled the transfer of existing insurance and reinsurance contracts that had historically been underwritten by HCCII and TMKI European branches and all branch employees to TME on 1 January 2019. The transfer was affected through TME issuing one share each, first to TMKI and then to HCCII. TME commenced underwriting new and renewal business on 1 January 2019. Further details of the Part VII transaction are contained in Note 7. With the successful establishment and operation of TME, the Group is well positioned to modify its operations, if necessary, to adapt to the transition and ultimate agreements between the UK and the EU.

Cross-Border Merger

In order to simplify TMHCC Group's legal entity structure (outside the US) and align it with its operating structure, the decision was taken in early 2019 to carry out a cross-border merger of HCC Global Financial Products S.L. (HCCG) into TME Spanish branch. HCCG was the TMHCC



Information as at 1 February 2020. This simplified structure chart shows ownership information for the principal operating entities within the TMHCC International segment.

*Holds a minority shareholding of 1.2%.

Geographical footprint

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

* 2 offices
** 3 offices



Strategic Report continued

Group's Underwriting Agency located in Barcelona, which historically underwrote Financial Lines business on HCCII's Spanish Branch. From 1 January 2019 this business has been underwritten on TME's Spanish Branch.

As a result of the cross-border merger, all assets and liabilities of HCCG transferred to TME Spanish branch on 17 July 2019, with all employees transferring on 1 August 2019.

Several share transfers and share issuances took place in connection with the merger and as a result HCCG's sole shareholder, HCC Global Financial Products LLC received a minority shareholding interest in HCCII's parent company, Tokio Marine HCC Insurance Holdings (International) Limited. HCCII remains the sole shareholder of TME at 31 December 2019.

Underwriting and Operational Initiatives

In addition to the strategic initiatives detailed above in respect of its legal entity structure, the Group also undertook several strategic underwriting and operational initiatives during 2019.

Marine Liability

In January 2019, the Group started underwriting its new Marine Liability line of business in the London Market segment. As with the Group's other accounts, the Marine Liability portfolio is well-balanced and comprised of a number of non-correlating sub-classes, including: Marine Trades, Marine Property (Incidental), US Primary, Energy Liabilities, Open Market Marine Liabilities and Mutual Reinsurance. The business written by the Marine Liability account brings some aggregation with other Marine classes already written by the

Group, but is largely a diversifier within the wider insurance and reinsurance business and the approach of the Marine Liability underwriters provides diversity within the portfolio, enabling the Group to achieve strong and consistent underwriting profit.

European Surety

Historically the Group's Surety business has been principally comprised of UK risks, however in recent years the account has seen an increasing amount of European business, particularly from France, Ireland, Scandinavia and Netherlands. Consequently, in 2019 Surety commenced its expansion into Continental Europe and the Group now has Surety underwriters based at TME's offices in Germany, France, Luxembourg, Denmark and the Netherlands with the European Surety team underwriting business on TME. This expansion supports the Group's development of a significant portfolio of European risks and the Group will continue to progressively build its Continental European Surety team during 2020 and beyond.

Delegated Property

The Group is beginning a new Delegated Property line of business to increase its niche Property product offerings and in late 2019 hired market leading underwriters to build its Delegated Property team. The Delegated Property team commenced underwriting from 1 January 2020.

UK Japanese (J) Business

During 2019, HCCII's affiliate TMKI was put into run-off and stopped accepting new and renewal business from 1 July 2019, except for Japanese accounts which were unaffected until 1 January 2020. From 1 January 2020 the Japanese accounts historically

written by TMKI in the UK, have been underwritten on HCCII. The employees responsible for the Japanese accounts transferred to HCC Service Company, Inc (UK Branch) on 1 January 2020.

Senior Management changes

The Group underwent changes to its Executive and Senior Management Team effective 1 October 2019, ensuring continued alignment with its strategic objectives and operating model whilst maintaining the Group's flat management structure and operational flexibility. This reorganisation facilitated the move of Nick Hutton-Penman (Group Chief Operating Officer) within the TM Group, as Deputy Chief Executive Officer of Tokio Marine Kiln. The restructure involved several members of the Executive and Senior Management Team taking on additional responsibilities, in addition to the creation of several new Senior Management positions to provide further support to the Executive. This strengthens the Group's medium to long term succession planning for key roles.

International Reach Integrated Expertise



Strategic Report continued

Business Model

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

Purpose

TMHCC International's purpose is to deliver risk solutions to its clients which provide continuity in times of business disruption. Highly specialised, quality underwriting which delivers clearly articulated and transparent products will inspire the trust and confidence of our clients. Skilful and sustainable reinsurance purchasing, careful investment of premium, conservative reserving and fair

claims handling provides the Group with a solid foundation upon which to apply the TM Group's "Good Company" approach to business.

Face risk with confidence

The Group's core business is underwriting specialty lines of insurance. In 2019, the Group had three core underwriting segments: International Specialty; London Market; and European Property & Casualty (P&C). More details on these underwriting segments are provided on page 9.

The Group writes London Market, International Specialty and European P&C products in the UK from HCCII's London and regional offices and in Europe through TME's European branches and across the rest of the EEA via Freedom of Services authorisations. TME's UK branch is also utilised to accept assumed reinsurance for EU risks. HCCII accepts inwards reinsurance risks from United States, Canada, Australia and the rest of the world where its licenses permit. Apart from some small Personal lines contracts written within Accident and Health (A&H), Marine and Professional Risks businesses, all other business written by the Group is Commercial lines.

Providing clients with products through the distribution network

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

Providing clients with products through the distribution network

Through our distribution network

Face risk with confidence

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

Underwriting and managing risk

Disciplined underwriting, careful risk selection and reinsurance purchasing

Underwriting and managing risk

Central to the Group's culture is underwriting profitable business through careful risk selection and reinsurance purchasing in order to preserve shareholder's equity and to meet its targeted risk adjusted return. To ensure risks are correctly priced, the Group's experienced and technical underwriters underwrite each risk individually, assessing a range of factors including but not limited to: financial exposure, loss history, risk characteristics, limits, deductibles, terms and conditions and acquisition expenses using rating and other models. For certain areas (which is limited in scope) where distribution is held by coverholders or brokers, the Group does delegate underwriting however this is through standard rating sheets and referral controls for risks that require non-standard pricing.

Reserves

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

Reserves

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

Investment

Preserve and grow shareholder's equity through conservative investment

Investment

The Group has a conservative investment strategy that aims to preserve and grow shareholder's equity and to maximise net investment income. To achieve this investment strategy, funds are invested in accordance with the Solvency II risk-based approach to investments and the 'prudent person principle', which ensures that assets are of appropriate security, quality and liquidity; are adequately diversified; and broadly match the Group's liabilities.

Claims management

Treating customers fairly, timely processing and settling of claims

Claims management

The Group understands the importance of the claims settlement process to its clients and how it approaches the management and settlement of its claims provides a key opportunity for the Group to differentiate itself from its competitors. The claims teams are focused on delivering a quality, reliable and efficient claims service by adjusting and processing claims fairly; in a timely manner; in accordance with the policy's terms and conditions; and the conduct rules.

Strategic Report continued

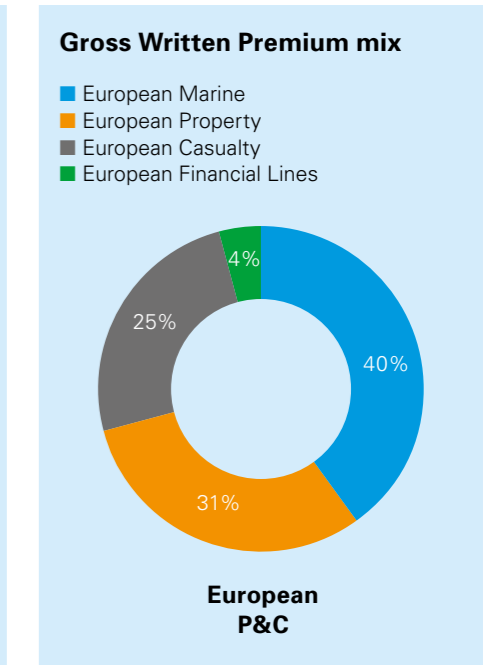
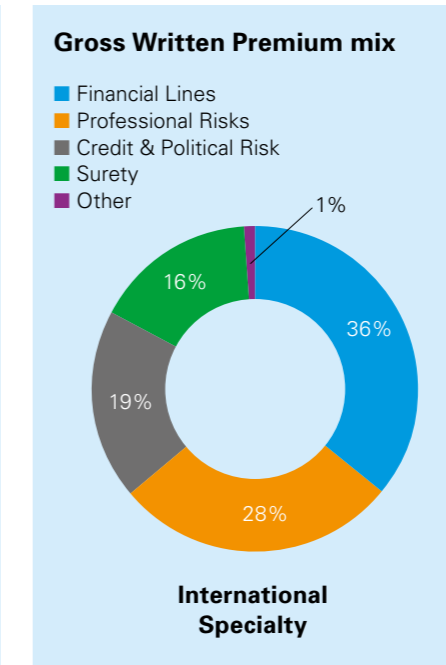
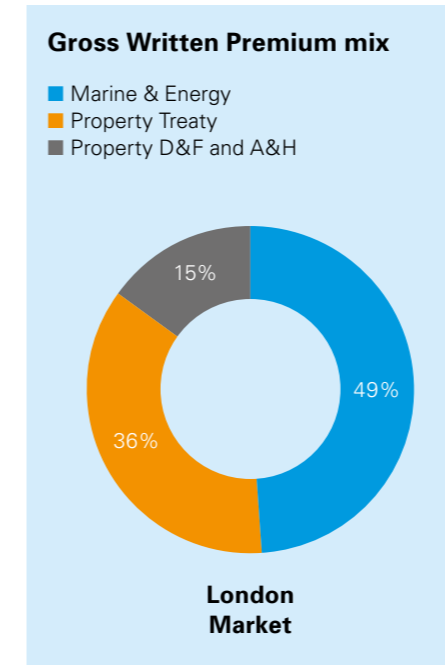
Business Model

Products



Underwriting Divisions

London Market	International Specialty	European P&C
<p>The London Market division includes the following lines of business:</p> <ul style="list-style-type: none"> • Marine & Energy; • Property Treaty; • Property Direct, and Facultative and A&H. 	<p>The International Specialty lines of business are comprised of:</p> <ul style="list-style-type: none"> • Financial Lines; • Professional Risks (including Contingency business); • Credit & Political Risk; and • Surety. 	<p>The European P&C segment consists of Japanese Business (J Business), which is the commercial insurance coverage provided to Japanese corporate clients in respect of their overseas business interests; and Non-Japanese Business (Non-J Business).</p> <ul style="list-style-type: none"> • J Business: <ul style="list-style-type: none"> • Property; • Marine & Aviation; and • Liability • Non-J Business: <ul style="list-style-type: none"> • Intellectual Property; • Marine Cargo; and • TMSL (French PA & Contingency and Bloodstock).
<p>Gross Written Premium \$214.6m</p> <p>Underwriting Result \$44.6m</p>	<p>Gross Written Premium \$602.4m</p> <p>Underwriting Result \$46.9m</p>	<p>Gross Written Premium \$201.6m</p> <p>Underwriting Result \$4.9m</p>



Strategic Report continued

Strategy

The Group's fundamental business philosophy is to produce an underwriting profit and investment income resulting in consistent net earnings which will increase shareholder value. This philosophy is supported by TMHCC International's culture which is underpinned by its core values: professional, disciplined, honest, respect and trust.

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

Strategic Objectives

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

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

- **Diversified portfolio of specialty business** – the balanced portfolio is achieved by writing a spread of business over time, segmented between different products, geographies and sizes; and differentiating itself from competitors either in product offering, customer service or market positioning, this results in a diverse and balanced portfolio of risks across lines of business which limits volatility and enables the Group to consistently achieve an underwriting profit.
- **Operational efficiency** – the TMHCC International segment manages portfolios by line of business on a single integrated operating model. This provides operational efficiencies across the TMHCC International segment which benefits the Group.
- **Skilled and entrepreneurial management** – the Group has a flat operational structure with an experienced and entrepreneurial management team. This enables flexible adaptation to the changing business environment, resulting in faster decision making and responsiveness to opportunities.

- **Prudent risk management** – the Group's conservative risk appetite and approach to risk management ensures that risks are identified, monitored and mitigated. Reinsurance is one of the most important risk mitigation tools used to limit exposure, reduce the volatility of various lines of business and preserve capital.
- **Financial security** – the Group has a very strong security (HCCII and TME both have S&P Ratings of A+ and AA- from Fitch). This provides the policyholder with the knowledge and comfort that their insurer will be able to honour its obligations when called upon to do so. Financial strength is a key differentiator for the Credit, Surety and Financial Lines businesses and allows the Group to access the highest quality risks where an insurer's financial strength carries a premium.

Generating value

The Group shares the TM Group's "Good Company" vision, and the core principles of this vision guides how the Group creates sustainable value for all its stakeholders: customers, employees, distribution network, suppliers, shareholders and the community.

In order to achieve its purpose and deliver its strategy the Group relies on the following key resources and relationships to support the generation and preservation of value throughout all aspects of its business model.



- **Financial Capital** – the Group has a strong balance sheet; its capital is well in excess of regulatory requirements and HCCII and TME both have a financial strength rating of A+ from S&P. This rating is equivalent to the rating of the Group's ultimate parent company TM Group, as S&P views TMHCC Group to be core to the TM Group. The Group's financial performance (detailed in the Business Performance section on pages 12-17) consistently generates value for its shareholder.

- **Employees and Intellectual Capital** – the Group recognises that throughout all areas of the business it needs to attract and retain highly skilled, disciplined and experienced individuals of exceptional quality who thrive in a constantly changing environment. This gives us the foundation to empower our people to be at the forefront of providing specialty insurance solutions which consider the fast-changing impacts of climate change, technological disruption and other issues which may adversely affect our clients. The actions taken by the Group to manage, sustain and develop its employees are detailed in the People section on pages 20-21.
- **Stakeholders** – strong stakeholder relationships are important, including clients, distribution network, shareholder, regulators and suppliers. The Group's relationships with its stakeholders are vital to its ongoing success. The actions it takes in respect of those stakeholder relationships are detailed on pages 18-25 and 42-43.
- **Technology** – the Group has technology solutions which generate value throughout its business. These include catastrophe modelling and aggregation tools; e-distribution portals for our Credit, Surety Contingency, Event Cancellation, Professional Risks and Marine Liability lines of business; capital modelling tools; policy and claims administration; reinsurance calculation; and IT security software to increase its IT resilience. These solutions provide increased operational efficiencies which benefit the Group's employees, distribution network and customers.



Strategic Report continued

Business performance and position

Financial KPIs

Gross premiums written



Underwriting result

Balance on technical account (before investment income)



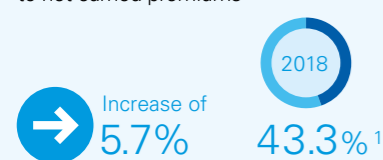
Net premiums written

Net of reinsurance



Net loss ratio

Ratio of net incurred claims to net earned premiums



Net combined ratio

Ratio of total technical charges (before investment income and equalisation provision) to net earned premiums



Investment income

Earned investment income transferred from the Non-Technical Account



Cash and investments

Excluding investment in subsidiaries and land and buildings



Consolidated shareholder's funds



¹ 2018 restatement from the merger of HCCG, a TM Group entity, into the Group (refer to Note 5 to the financial statements).

Results and performance

The Group has grown substantially with Gross Written Premium (GWP) up 54.9% in 2019. 24.3% of the GWP growth is from continued organic growth of the Specialty and London Market segments and the new business written under the European P&C segment. TME has been underwriting business from 1 January 2019, providing the Group with a fully licensed platform and enabling it to provide seamless service to its European policyholders. In addition to underwriting the business, which was previously on HCCII and TMKI European branches, TME also underwrites the European business for Japanese companies. The European P&C segment contributed 28.8% of the overall growth in GWP. This has resulted in a diversified business mix within the Group.

The Group made a net profit before tax for the financial year of \$141.3m (2018: \$95.8m) and a balance on the technical account for general business of

\$124.1m (2018: \$118.7m), which includes Investment income of \$28.1m (2018: \$25.6m).

The balance on the technical account excluding Investment income is \$96.0m (2018: \$93.1m), showing a combined ratio of 83.6% (2018: 81.0%), with strong profits from both the Specialty and London Market segments.

The Specialty segment (2019 technical result \$46.9m; 2018: \$48.9m) continued to benefit from organic growth and good rating conditions across the sub-segments which built momentum in the second half of 2018 and continued throughout 2019. Professional Risk benefitted from reduced acquisition costs and fee income following the QHL acquisition in Q4 2018. Overall the Credit & Political Risk subsegment was profitable although UK Trade Credit was impacted by the challenging loss environment and economic uncertainty brought on by Brexit. The Surety subsegment has been impacted for the

second year by several large market losses, together with the challenging experience in the French market, albeit all other areas of the sub-segment performed well. Prior accident year loss strengthening totalled \$4.2m (2018: \$0.3m accident year loss releases) increasing the loss ratio by 0.9% (2018: 0.1% reduction).

The London Market segment has also grown substantially primarily from a new Marine Liability team (from 1 January 2019) and expansion of Energy Renewables business. Market conditions continued to be strong and exceeded expectations. This is, in a large part due to the Group's ability to offer capacity when competitors were unable. The Group did not have any significant exposure to 2019 large catastrophes or the deterioration of prior year events. Total prior accident year reserve releases totalled \$6.0m (2018: \$2.3m accident year loss strengthening) reducing the loss ratio by 4.3% (2018: 2.3% increase).

Maintaining Profits Sustaining Progress



Strategic Report continued

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

Investment income transferred to the technical account is comprised principally of earned investment income reflecting the Group's investment strategy which is to preserve and grow shareholder's equity and to maximise net investment income. Its solid operating cash flow and robust capital position supports this approach over one of managing total yield inclusive of unrealised gains and losses.

The non-technical account items increased the balance on the technical account for general business by \$17.3m

(2018: \$22.9m reduction) and are comprised of net unrealised gains on the Group's fixed income portfolio of \$41.7m (2018: \$18.9m losses) which is consistent with the effect of US interest rate reduction during the year on the Group's investment portfolio which is principally in US dollar fixed income securities. The increase is partially offset by amortisation of goodwill and intangibles \$10.3m (2018: \$3.5m), net foreign exchange losses \$8.1m (2018: \$9.4m net gains), Brexit transition costs \$3.5m (2018: \$4.2m) and other operating expenses.

Overall, the directors are satisfied with the Group's operations and its financial position at 31 December 2019.

Gross Written Premium

2019 GWP written increased by \$361.1m to \$1,018.6m (2018: \$657.5m). Excluding the impact of FX, the increase was \$383.0m. This was driven by a combination of the new business written by the Group in 2019, together with

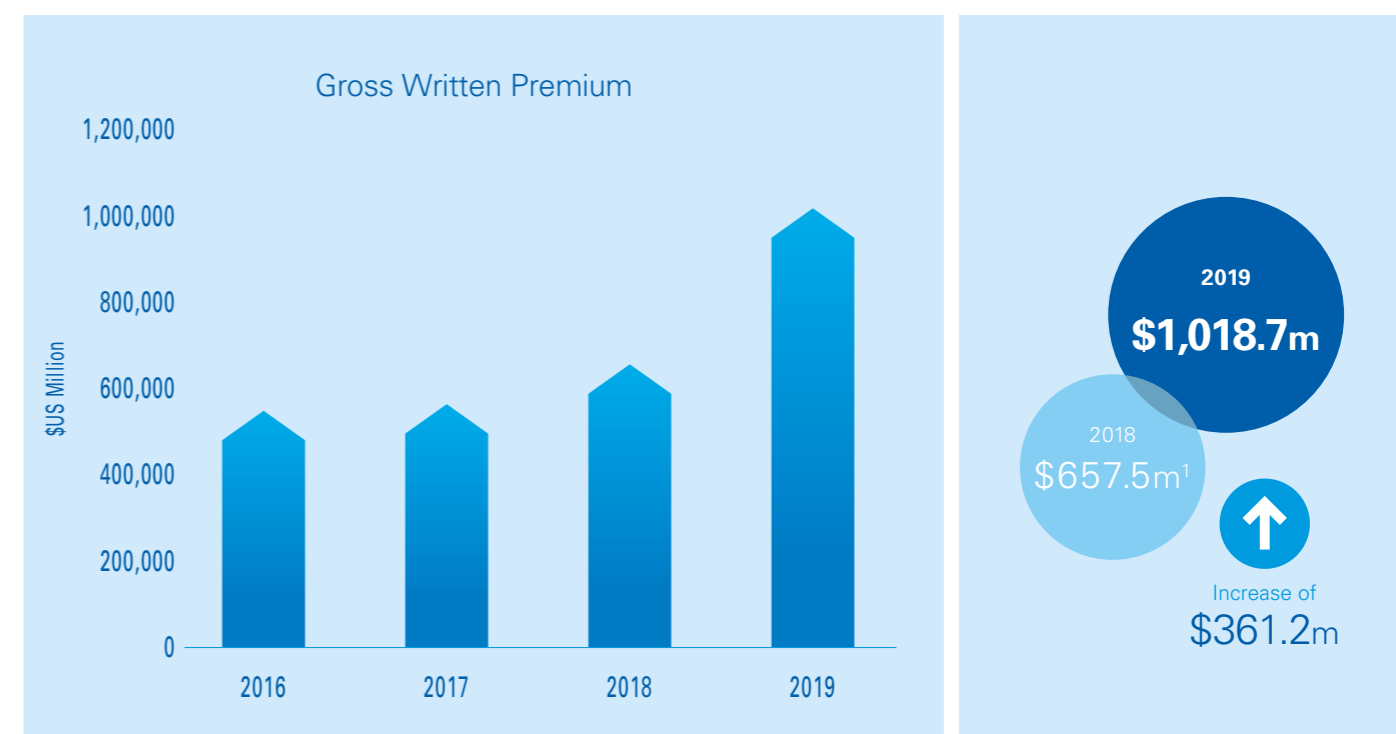
improved market conditions on existing business, most notably London Market and Non-Transaction Risk Insurance (TRI) Financial Lines.

The most significant driver of the GWP growth in 2019 was the introduction of European P&C business, formerly underwritten by TMKI in Europe, which from 1 January 2019 has been written as part of the Group through TME. This business is almost 100% reinsured to TMKI and TMNF therefore the impact to GWP is substantially larger than the impact on the bottom line.

Additional GWP growth was due to the new Marine Liability line of business (\$31.5m in 2019), new opportunities in Professional Risks, including the impact of QBuS, and the transfer of business formerly underwritten on TMHCC International's other underwriting platforms to TME as a result of Brexit.

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

The chart below illustrates the growth in the Group's GWP from 2016-2019.



HCCII GWP analysis

	2019	2018	Increase/(decrease)		2018 GWP at 2019 rate	Increase/(decrease) (excl. exchange effect)	
	\$'m	\$'m	\$'m	% change	\$'m	\$'m	% change
Financial Lines	220.6	187.4	33.2	17.8%	180.7	39.9	22.1%
Professional Risks	169.4	136.3	33.1	24.3%	130.5	38.9	29.8%
Credit & Political Risk	112.2	98.2	14.0	14.3%	95.8	16.4	17.1%
Surety	94.8	90.3	4.5	5.1%	86.2	8.6	10.1%
Other	5.4	5.9	(0.5)	-8.8%	5.8	(0.4)	-6.4%
Total Specialty Segment	602.4	518.1	84.3	16.3%	499.0	103.4	20.8%
Marine & Energy	105.6	52.5	53.1	101.0%	52.1	53.5	102.6%
Property Treaty	76.4	66.2	10.2	15.4%	64.1	12.3	19.1%
Property D&F and A&H	32.6	20.7	11.9	57.4%	20.5	12.1	59.2%
Total London Market	214.6	139.4	75.2	53.9%	136.7	77.9	56.9%
European J Business	95.5	-	95.5	0.0%	-	95.5	0.0%
European Non-J Business	76.0	-	76.0	0.0%	-	76.0	0.0%
Total European P&C¹	171.5	-	171.5	0.0%	-	171.5	0.0%
Total	988.5	657.5	331.0	50.4%	635.7	352.8	55.5%

¹ European P&C excludes \$30m being the value of the gross unearned premium reserve transferred from TMKI as part of the Part VII transfer (refer to Note 7 to the financial statements).

Specialty

Financial Lines GWP increased to \$220.6m (2018: \$187.4m) with the growth driven by improved market conditions in Commercial PI, US traded D&O and Australian Financial Lines as well as continuing growth in cyber business. This has been partially offset by a decrease in TRI business where competition remains intense with the emergence of new Managing General Agents in Europe and London.

Professional Risks GWP increased to \$169.4m (2018: \$136.3m). The business includes two main product lines, Professional Indemnity and Liability. The growth is driven by Professional Indemnity where market conditions have improved, while Liability has continued to grow organically albeit at a slower rate. The acquisition of QHL in Q4 2018 has had a positive impact on both top line and acquisition costs, the latter is somewhat offset by increased premium on some higher commission accounts in Liability.

Credit & Political Risk

GWP increased to \$112.2m (2018: \$98.2m). The Group offers a full range of Credit and Political Risk insurance solutions for both financial institutions and small and large commercial companies through its two specialist underwriting teams. The largest team focuses on UK whole turnover Credit business where our high service standards in both underwriting and claims handling positions the Group as one of the major insurers in the UK and allows us to experience high retention levels. The UK market for this business is particularly challenging given current economic uncertainties and the difficulties experienced by the UK retail sector. As a consequence, we adapted our underwriting approach during 2019 to reduce exposure and focus on risk selection, resulting in a reduction in premium on the UK whole turnover Credit account. In contrast, the Excess Credit and Political Risk team has considerably increased premiums in 2019 due to the change in the choice of carrier between TMHCC International's underwriting platforms, reflecting the impact of Brexit and customer preference.

Surety GWP marginally increased to \$94.8m (2018: \$90.3m). The Group's position in the market together with its strong S&P rating provide good opportunities for Surety to sell performance bonds and other bond products, supporting large multi-national companies involved in significant infrastructure projects. Growth in the year is driven by our new European Surety underwriting team which wrote \$6.0m of business in 2019.

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

London Market

Marine & Energy GWP increased to \$105.6m (2018: \$52.5m). The increase is driven by better rating conditions in both Marine and Energy and the addition of the new Marine Liability team as commented on above.

Property Treaty GWP increased to \$76.4m (2018: \$66.2m). The portfolio is comprised principally of Non-US excess of loss reinsurance business. The strategy of strong client relationships

and participation on high programme layers combined with a consistent and responding reinsurance programme, has consistently produced profitable results. The rating environment remains challenging. The majority of growth in the period is driven by the shift of business to TME from TMHCC International's other underwriting platforms demonstrating client preference for our European carrier.

Property Direct & Facultative and A&H GWP increased to \$32.6m (2018: \$20.7m). Growth in the Property Direct and Facultative account continues to be driven by rating improvements in response to the 2017 and 2018 natural catastrophes. Our A&H portfolio continues to maintain market leading profitability due to disciplined underwriting and realistic growth expectations.

European P&C

The European P&C segment had GWP of \$201.6m for 2019 (2018: \$nil). The segment consists of J Business (Property; Marine & Aviation; and Liability), which is the commercial insurance coverage provided to Japanese corporate clients in respect of their overseas business interests; and Non-Japanese Business (Non-J Business) (Intellectual Property; Marine Cargo; and TMSL (French PA, Contingency and Bloodstock)). The J and Non-J business has been underwritten on TME from 1 January 2019 as part of the TM Group's strategy for Brexit.

The J Business market is largely segregated from the European insurance market and consequently it does not follow the market trends. Notwithstanding, in 2019 we observed some signs that the J Business market was hardening, but this was limited to those Property and Marine accounts with natural catastrophe exposure and poor loss experience.

Investment Performance

The investment function is overseen by the Investment Committee which operates under terms of reference set by the Group's Board. The Investment Committee is responsible for preparing, in conjunction with the Group's investment managers, the investment

policy for approval by the Board. It is also responsible for monitoring investment performance and recommending the appointment of investment managers.

New England Asset Management was the investment manager for the US Dollar, Sterling, Euro and Swiss Franc funds throughout the year. The funds consist primarily of a portfolio of highly rated Corporate Bonds, which are BBB rated and above, including bonds guaranteed by the US, UK and German governments. The average duration of the aggregate portfolios at the year-end was 4.6 years (2018: 3.82 years). Delphi Financial Group, Inc. (Delphi) an investment manager within the TM Group, manages the alternative investment class entered into in 2019 which comprises 3% of the Group's consolidated invested assets.

Balance Sheet

The balance sheet of the Group shows total assets of \$2,797m (2018: \$2,102m) and shareholder's equity of \$861m (2018: \$756m). Of the total assets, \$1,521m, i.e. 54.4% (2018: \$1,279m, 60.8%) is represented by financial investments and cash at bank. Net technical liabilities from insurance contracts were \$949m (2018: \$793m).

HCCII's regulatory solvency position is measured on a 'solo' basis which requires the treatment of the strategic investments in TME and QHL on a Solvency II 'look through' basis with additional capital requirements equal to those required for other equity investments. This results in a solvency ratio of 197% at 31 December 2019 (2018:183%).

Future Outlook

The Group's strategy for 2020 includes:

- continued expansion of its brand throughout Europe; and the identification and development of opportunities to grow its business;
- completion of the IT integration and infrastructure projects which are necessary to support business growth; and
- successful integration of the UK J Business that will be underwritten by HCCII from 1 January 2020.

GCube Acquisition

In line with the Group's strategic objective to grow through targeted acquisitions, the Group announced in March 2020 that it has signed an agreement to acquire GCube, the managing general agent which is one of the largest global underwriters of renewable energy, covering wind, solar, bio, hydro, wave and tidal projects. The acquisition demonstrates the Group's commitment to the renewable energy insurance market and its desire to actively address the issues around sustainability, helping us move towards a safe, secure and sustainable future. The acquisition is expected to complete during Q2 2020, and the Group has sufficient capital resources to fund this acquisition. The Group believes that this strategic acquisition complements the business currently written by the Group and provides further opportunities for growth and diversification.

Covid-19

The Group's corporate governance framework allows the Board to continually assess the Group's trading and financial conditions. To date these processes have validated the strong future outlook and strong capital position of the Group. The outbreak of the coronavirus pandemic (Covid-19) is unprecedented and will have a material impact on the global economy and the insurance market. Given this, management and the Board have been assessing and will continue to assess the impact of Covid-19 on the Group's current and future trading outlook and its going concern. This includes the effect on underwriting, operational and liquidity risks and the Group's solvency position.

The Group's business portfolio is diversified and those businesses which have a direct exposure to losses associated with Covid-19 have comprehensive reinsurance with high quality reinsurers with whom it has had long trading relationships. Additionally, the IT infrastructure of the Group enables remote working so that the highly skilled and dedicated employees can continue normal operational processes without substantial disruption. This enables the Group to continue to service its policyholders. The investment portfolio is conservatively invested, and the Group

has substantial liquidity. Although it is early to conclude a comprehensive assessment as to the impact on the Group, the Board has concluded that this post balance sheet event is a non-adjusting event and it will not have an impact on the Group's ability to continue as a going concern.



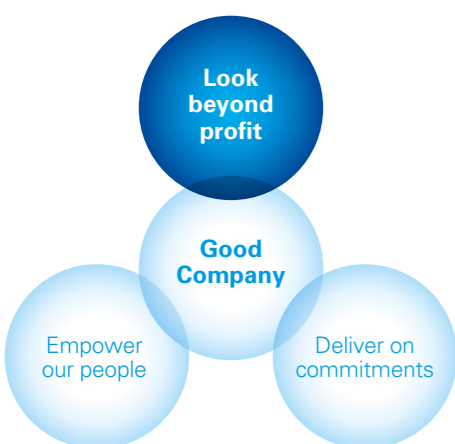
Changing Markets Consistent Results

Strategic Report continued

Business Environment

Community

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



- support of employees' charitable efforts - either through additional time off (each employee is allowed 2 volunteer days per annum) or financial contribution towards charitable money raising undertaken by employees; and
- formation of multi-year charity partnerships which provide annual financial contributions to chosen charities and, if practical, the charities provide opportunities for employees to participate.

Under this strategy during 2019, the Group donated over £200,000 in its support of charitable groups and employee fundraising initiatives. Employee fundraising has also raised over £60,000 in the past two years.

During 2019, the Group expanded its charity partnerships in the UK and Europe. It also supported employees to hold one off fundraising events for non-partner charities. The Group has chosen to make its principal partnerships with charities that support:

- individuals and their families that have faced or continue to face adversity and trauma;
- the education and personal development of young people to support a positive contribution to society; and
- the environment.



Partner Charities

Originally established in 1996, Body & Soul (B&S) offers a proven transformational programme for people of all ages who have experienced childhood adversity, family disruption, suicidal behaviour and/or HIV.

A charity partner since 2016, the Group specifically supports their Post Adoption Programme which is focused on increasing the resilience of adopted children and their adoptive parents.



People make choices. Choices make history.

Facing History, a new charity partnership in 2019, has as its mission to challenge teachers and their students to stand up to bigotry and hate using lessons learnt from historical events. Specifically, the Group has supported Facing History's development of teaching modules for the GCSE curriculum which assist teachers to include in their classes modules which create connections between choices made in the past to situations students confront in their own lives. This assists students to become 'upstanders' in their communities by challenging negative stereotypes and making a stand against bullies.

St Mungo's

Ending homelessness
Rebuilding lives

2019 marked the 50th anniversary of St Mungo's, a charity that began supporting homeless people by delivering soup to rough sleepers. Today it supports large numbers of homeless people in the UK by delivering outreach services and providing accommodation, utilising a wide variety of initiatives.

The Group has partnered with St Mungo's since 2016 and currently supports the No Second Night Out (NSNO) initiative, through which St Mungo's, in partnership with the Greater London Authority, provides NSNO hub(s) for people who are found sleeping rough for the first time. Since the partnership with St Mungo's began in 2016, our support has helped 2,507 people exit rough sleeping.



During 2019, the Group supported Rainbows Hospice for Children and Young People in Leicestershire. Hospice for Children and Young People provides support to life-limited children and their families including one to one end of life care, short breaks and respite care.



Wickers is a Hackney based charity founded in 2018 to reduce knife and gang related crime, by providing a "safe place" for young people aged 8-18 years that live within the local area. Wickers provides both learning opportunities and recreational activities, with a focus on coaching and mentoring. In addition, they run gun and knife crime workshops in schools locally and have now been invited to deliver workshops in schools in other London boroughs.



The Wallich is a Welsh homelessness charity whose mission is to get people off the streets, keep people off the streets and create opportunities for people. Outreach teams provide hot food, advice, referrals and pathways out of homelessness. The Wallich also runs temporary accommodation and support services for clients experiencing substance abuse and/or mental health challenges. The support provided by the Group in 2019 enabled funding for a new shower room at the Wallich's drop-in centre in Bridgend.



Since 2005 through its Barcelona office, the Group has partnered with Fundació Fàtima, a non-profit social entity which provides 24/7 support and care to children and the elderly through a children's home and a care home for the elderly.

The children's home provides temporary accommodation for children from birth up to 18 years old, currently housing 34 children and young people, who for various reasons, cannot continue to live at their family home. The centre provides education, extra-curricular activities and personalised support whilst working, where possible to return children to their families within the shortest time possible. The elderly care home provides permanent accommodation and psychosocial care for up to 46 elderly people. In addition to the permanent residents, the care home and its soup kitchen provides opportunities for day care and support to other elderly people. The centre works to promote autonomy for elderly people, allowing them to maintain close relationships with their families and community.



Also, in Barcelona, the Group has supported Nexe Fundació since 2007. The charity supports children and young people with severe disabilities through a specialised care centre (from birth up to 5 years old) that offers tailor-made treatment and support on a daily basis.

The Group funds the *Respira y Ocio* (Breathe & Leisure) programme from birth up to 18 years old, that offers adapted leisure activities every weekend and summer camps (unique in Catalonia).

The resource centre provides training to other professionals and offers respite for families whilst the children and young people are participating in activities with other children without disabilities so that, through recreational activities, they can share and relate among equals and participate in different standardised children's environments.

Key Fundraising Events

The offices across the UK and wider Europe took part in numerous fundraising initiatives throughout the year and the key events are highlighted below.

- Spinathon challenge in London which had significant participation from employees, with some cycling for over six hours; and
- A team of 50 which included St Mungo's clients, employees, volunteers together with employees from the Group climbed Britain's highest peak, Ben Nevis in September 2019. Despite the challenge of both the climb and the weather, the sense of team spirit, camaraderie and support remained high throughout the day and was integral to the achievements of the whole team.

Strategic Report continued

People

Vision & Values

TM Group's corporate vision is to be a "Good Company" which encompasses the values we aim to represent. These values include "Look beyond profit", "Empowering our people" and "Deliver on commitments". The Group incorporates this overarching vision into its culture and values.

The TMHCC Group Culture and Values Survey 2019, which had an overall response rate of 80% of TMHCC Group employees, showed that TMHCC Group's overall scores continue to trend upward. The highest scores were in the category Group Attachment which reflects our employees' pride in being a member of the TMHCC Group that Delivers on Commitment and Looks Beyond Profit.

The scores in Empower our People and Engagement whilst marginally higher than in 2018, represent important opportunities for us to grow.

Attracting and Optimising Talent

The continued growth and future success of the Group is dependent upon an engaged, innovative and exceptional workforce. To attract and retain talent, the Group is committed to providing a work environment which ensures employees feel valued and provides opportunity for development.

34.5% of employees have more than 5 years of service with the Group, with 19.5% of employees having more than 10 years' service. Due to the growth of the Group's business we have recruited for a significant number of new roles in the last 12 months, increasing headcount by over 10%.

The Group monitors its employee turnover (see non-financial KPI's on page 23) on a quarterly basis and the timely review of the factors contributing to employee turnover enables the Group to take appropriate action to address the reasons driving turnover, ensuring it continues to offer its employees a workplace that is both rewarding and challenging.

During 2020 TMHCC Group will launch a new performance, growth and development initiative which will replace the current appraisal process. Pathways will enable us to give real time feedback and engage with our employees using a dynamic and intuitive system.

Employee Rewards

The Group offers competitive rewards (salaries and benefits), enabling us to attract and retain talent. Employee benefits include: a contributory company pension scheme, life insurance, permanent health insurance, season ticket loans, and benefits through the Lifestyle benefits scheme (including travel, leisure, health, high street store discounts).

Training and Development

In addition to a competitive salary and benefits, employees receive training and career development support that includes internal and external courses provided by professional consultants; external conferences and seminars; and study support. We also have 5 employees on apprenticeship schemes which are funded by our apprenticeship levy (a government scheme under which employers of a certain size are required to contribute to an apprenticeship levy which a company then uses to fund apprenticeships).

Alongside its existing training and development opportunities, TMHCC International sends individuals to the Leadership Excellence and Development programme (LEaD) sponsored by the TMHCC Group. This programme supports TMHCC Group's strategic talent management through the development of internal talent over a two-year period.

In 2019 TMHCC Group launched a new corporate programme, Elevating Women in Leadership (EWIL), which has been designed to accelerate the development of female leaders and provide a pipeline of women who inspire, drive results and take on future leadership roles.

The Group aims to develop people by providing empowering and career growth opportunities, by increasing knowledge through experience and by offering relevant training. TMHCC Group's corporate programmes such as LEaD, EWIL and future management development initiatives will allow our talented people to prosper and become the future leaders of our business, enabling the Group to have a robust succession plan in place which is crucial to the growth and stability of the business.

Inclusion and Diversity

The Group recognises that a more inclusive workplace increases diversity and a more diverse workforce allows access to a wider pool of talent. The Group is committed to being an Inclusive and Diverse (I&D) employer and in order to develop its approach to I&D, it established an I&D Committee in 2019 who, with support from other working groups, departments and the Sustainability Committee, are formulating TMHCC International's I&D strategy. I&D remains a key focus for the Group in 2020.

Health and Wellbeing

The physical and mental health and wellbeing of employees is critical, and the Group is committed to providing a healthy working environment for its employees. The Group's approach to Health and Wellbeing encompasses physical and mental health of its employees as it recognises that its employees work best and can achieve sustainable high-performance when they are healthy and feeling valued.

To support its employees the Group provides a range of health and wellbeing benefits and resources, including private medical insurance, gym contribution and eye care. Through the private medical insurance employees have access to an Employee Assistance Programme which provides them with free and confidential access to professional advice on a range of issues.

During 2019 the Group arranged several Wellbeing events focusing on Mindfulness, Nutrition and Resilience to ensure its employees are well supported through periods of high pressure and change. This programme of events will continue during 2020.

In 2019, as part of its Wellbeing strategy the Group launched its Flexibility at Work Policy in the UK which supports our employees to maintain a balance between their personal and professional lives by allowing them to work more flexibly through variable start and finish times.

Comprehensive Ability Continued Stability



Strategic Report continued

Business conduct and ethics

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

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

Conduct

At the core of the Group's approach to responsible business is ensuring that all policyholders receive fair treatment throughout the product lifecycle and no detriment is caused to the Group, its customers, clients or counterparties because of the inappropriate execution of our business activities. This ethos is communicated through our governance structure from the Board to all members of staff, with a specific committee responsible for oversight of conduct, product governance and distribution throughout the business. Conduct risk

e-training is also provided to employees working in underwriting, claims, compliance, internal audit, marketing and risk departments and to Executive and Non-Executive Directors.

Throughout 2019 the Group continued to ensure the following activities were undertaken: reviews of all new products; customer advocate reviews of wordings; comprehensive due diligence on all third parties with whom we do business prior to engagement and audits undertaken thereafter; allocation of product risk ratings and continual monitoring of the highest ratings using detailed



management information to ensure fair consumer outcomes; and compliance monitoring on licensing, sanctions, financial crime and TCF practices. During 2019, the Group continued to monitor the performance of its products to ensure they performed fairly and as intended.

Complaints

The Group is dedicated to ensuring policyholders and claimants receive a high-quality service and aims to ensure that complaints are handled fairly, effectively and promptly and resolved at the earliest opportunity, minimising the number of unresolved complaints which may need to be escalated.

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

The Group monitors complaints received on all lines of business using detailed management information to ensure fair consumer outcomes. Amongst a number of indicators, the management information monitors volume of complaints, complaint outcomes and any findings arising from the financial ombudsman services in the UK and Europe in the event that a policyholder disagrees with a decision made by the Group in respect of a complaint. These complaint metrics are reported within the non-financial KPIs.

Sanctions

The Group is subject to UK and European sanctions and OFAC-administered US sanctions in territories where it is deemed to be a US Person (Iran, Cuba, and Syria). To ensure the Group avoids writing business with exposure or

potential exposure to sanctions targets, the Compliance Department ensures all employees within the business have sanctions awareness and this is achieved through the provision of e-training for all employees. The Group also runs real-time and batch-screening that is designed to identify possible matches between potential insureds or claimants and listed sanctions targets. The results of these tests are reported as part of the non-financial KPIs.

Licensing

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

Anti-bribery and corruption

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

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

All business that would expose the Group to any parties domiciled in countries that exhibit a high corruption risk (countries with a score of 20% or less on the

Transparency International Corruption Perceptions Index (CPI)) require approval from a member of the executive team prior to inception and the receipt of approval is monitored by the International Compliance Department. The non-financial KPIs set out the number of instances when Group sought executive approval during 2019.

Money laundering and financial crime

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

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

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

follow-up of to the 2019 Financial Crime Risk Assessment will be undertaken in 2020. A separate Tax Evasion Risk Assessment was also completed.

From a governance perspective, it should be noted that the MLRO provided bi-annual reports to the HCCII Board whilst formal updates on financial crime were also provided to multiple Board committees including the Executive Underwriting Monitoring Committee and Risk & Capital Management Committee. Additionally, the Internal Audit department performed an 'Anti-Money Laundering / Combatting the Financing of Terrorism' audit during 2019 with the 'Effective' audit opinion advised to the HCCII Audit Committee.

The results of the Group's money laundering controls are set out within the non-financial KPIs.

Procurement, outsourcing and working with third parties

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

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



Strategic Report continued

Whistleblowing

The Group's Whistleblowing Policy follows accepted best practice and regulatory requirements, has been specifically emphasised in communications by the executive and is centrally accessible to staff on the intranet. It outlines the procedures and processes for when and how to speak up about wrongdoing within the organisation. An individual can raise a concern internally or externally (e.g. in the UK via the PRA, FCA) or via an externally provided confidential hotline. The non-executive Chairman of the Group's Audit Committee has been appointed as Whistleblowing Champion and report have been provided to the Group's Audit Committee on the whistleblowing arrangements. The Group's Whistleblowing Policy was updated and approved by the Audit Committee in August 2019 and Whistleblowing was covered as a subject in a Financial Crime Risk Assessment performed by the Group in 2019.

No whistleblowing concerns were reported through the internal or external channels during 2019.

Data Protection

During 2019, the Group worked to further refine the Data Protection Framework. The existing framework documentation was reviewed and amended as required to ensure it could be applied across the Group and additional documents were created as necessary. The Data Protection Impact Assessment ('DPIA') process has been embedded within the Group, with all new projects now being subject to scrutiny with DPIAs completed.

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

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

Challenging Times Lasting Solutions



Strategic Report continued

Non-financial Key Performance Indicators (KPIs)

Non-Financial KPIs	Description	2019 Result
Sanctions	Sanctions matches (UK, European and OFAC-administered US sanctions in territories where the Group is deemed to be a US Person).	<ul style="list-style-type: none"> No submissions were declined due to exposure to specific named sanctions targets nor were any policies cancelled. No claims were received that would have exposed the Group to the risk of infringing any sanctions. An OFAC licence was received two years after it was applied for in connection with a Marine claim in Cuba.
Licensing	Policies written in line with licensing restrictions/permissions.	<ul style="list-style-type: none"> 6 risks were re-stamped (HCCII to TME or HCCII to HCCII Swiss Branch).
Bribery and corruption	Executive approval pre-inception for risks where a party is domiciled in countries with a score of <20% on the CPI Index.	<ul style="list-style-type: none"> Approval was not sought post inception during 2019.
Money Laundering	Executive approval required pre-inception for risks where a party is domiciled in countries with a score of >7.5 on the Basel AML Index Return Premiums >15% of the gross premium and >£10,000 (or £1,000 for PI) up to 2 months after inception; and any claims made within 7 days of policy inception.	<ul style="list-style-type: none"> Approval was sought (post-inception) once in 2019 after the Bahamas became FATF-listed. The bi-annual review of returned premiums and claims provided no grounds for the suspicion of money-laundering in 2019.
Volume of Complaints	Total number of complaints received.	14
Complaint Outcomes	The number of complaints received which have been upheld i.e. where the policyholder's complaint is found to be justified. The number excludes complaints where the Group does not accept any wrongdoing but has made an ex-gratia payment to the insured.	1
Financial Ombudsman Service (FOS) Outcomes	% of complaints which have been upheld by the FOS following referral of complaint by an eligible policyholder who disagrees with the Group's final decision.	0%
Employee turnover metric	The number of permanent non-fixed term contract employees, of the HCC Service Company, Inc. (UK branch) and TME, who have left over the last 12 months divided by the average number of permanent non-fixed term contract staff over the last 12 months.	<p>(RAG rating: R = turnover is 0% or more than 13%; A = turnover is 1%-3% or 10%-13%; G = otherwise.</p> <p>10.57% - Amber as at 31 December 2019 (2018: Green 8.0%).</p> <p>The Employee turnover metric moved from Green to Amber in 2019, due to an increase in turnover, however during the year the number of employees also increased following the Part VII Transfer, and the metric is only marginally above our tolerance level for a green rating.</p> <p>The Group is not concerned about the increase in turnover for 2019 but will continue to monitor turnover and the reasons driving it and will take steps to address any identifiable trends.</p>

Non-financial information statement

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

Reporting requirement	Policies and standards which govern our approach	Risk management and additional information
Environmental matters	<ul style="list-style-type: none"> CSR Strategy 	Principal Risks & Uncertainties page 28-30 Engagement with Stakeholders page 42-43
Employees¹	<ul style="list-style-type: none"> Code of Business Conduct and Ethics² Employee Handbook² Health and Safety Policy² Diversity and Equal Opportunity Policy² 	People pages 20-21 Engagement with Stakeholders page 42-43
Human rights	<ul style="list-style-type: none"> Modern Slavery Statement Data Protection Policy² 	Business Conduct page 22-24 Engagement with Stakeholders page 42-43
Social matters	<ul style="list-style-type: none"> Voluntary Work Policy² CSR Strategy 	Community page 18-19 Engagement with Stakeholders page 42-43
Anti-corruption and anti-bribery	<ul style="list-style-type: none"> Financial Crime Manual² Anti-Bribery and Corruption Policy² Anti-Money Laundering Policy² Gifts and Entertainments Policy² Whistleblowing Policy² 	Business conduct page 22-24 Principal Risks page 28-30
Policy embedding, due diligence and outcomes		Principal risks pages 28-30
Description of principal risks and impact of business activity		Principal risks pages 28-30 Generating value for stakeholders' page 11
Description of the business model		Business Model pages 6-9
Non-financial key performance indicators		Key performance indicators page 26

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

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

Strategic Report continued

Principal risks and uncertainties

The Group has identified the principal risks arising from its activities and the Board has established appetites covering the amount and type of risk the Group is prepared to seek, accept or tolerate and these appetites are embedded in the policies, procedures and mitigation frameworks that are in place to manage these risks. The Group maintains a risk register and categorises its risks into six areas: Insurance; Strategic, Regulatory and Group; Market; Operational; Credit; and Liquidity. These risk areas along with the actions taken by the Group to manage and mitigate, are discussed below and further detail regarding these risks is provided in Note 5.

Risk	Description	Mitigating actions/factors
Insurance	<p>The four key components of insurance risk are premium or future underwriting risk (including delegated authorities), reinsurance purchasing, claims management and reserving.</p> <p>The Group's insurance business assumes the risk of loss from persons or organisations that are themselves directly exposed to an underlying loss. Insurance risk arises from this risk transfer due to inherent uncertainties about the occurrence, amount and timing of insurance liabilities.</p>	<ul style="list-style-type: none"> An underwriting strategy that seeks a diverse and balanced portfolio of risks. A reserving policy to produce accurate and reliable estimates that are consistent over time and across classes of business. Setting and regularly monitoring risk appetites. Individual authority limits for all employees authorised to underwrite and business plans for each line of business. Claims teams focused on delivering quality, reliability and timely service to both internal and external clients. Using reinsurance to protect the Group's balance sheet. Monitoring exposures using modelling tools.
Strategic, Regulatory and Group	<p>Risks which arise from:</p> <ul style="list-style-type: none"> the Group's strategy being inappropriate or the Group being unable to implement its strategy; the Group not complying with regulatory and legal requirements; and the Group failing to consider the impact of their activities on other parts of the TMHCC Group and vice versa. 	<ul style="list-style-type: none"> Setting and regularly monitoring risk appetites. A management structure that encourages organisational flexibility and adaptability, while ensuring that activities are appropriately coordinated and controlled. Operating across the TMHCC Group with clear and open lines of communication to ensure all TMHCC Group entities are well informed and working towards common goals.
Market	<p>Market risk arises where the value of assets and liabilities or future cash flows change because of fluctuations in economic variables, such as movements in foreign exchange rates, interest rates and market prices.</p>	<ul style="list-style-type: none"> Investment Committee has an objective to ensure funds are invested in accordance with the 'prudent person principle', whereby: i) assets are of appropriate security, quality and liquidity; ii) are adequately diversified and are localised; and iii) broadly match the liabilities. Adhering to an investment risk appetite which form part of the Group's overall risk appetites. Setting and regularly monitoring risk appetites. Independent investment experts assist with the implementation of the investment strategy and monitoring of the economic environment and investment performance.
Operational	<p>Operational risk arises from the risk of losses due to inadequate or failed internal processes, people, systems, service providers or external events. Operational risk includes conduct risk.</p>	<ul style="list-style-type: none"> Performing business activities in a fair, honest and transparent manner that complies fully with applicable UK and International legal and regulatory requirements, and internal policies and procedures. Setting and regularly monitoring risk appetites. Scenario testing and modelling operational risk exposure. Management review of operational activities, including IT and IT security. Documented policies and procedures. Ensuring key processes include preventative, directive and detective controls. Business Continuity and contingency planning. Established and embedded systems controls.

Risk	Description	Mitigating actions/factors
Credit	<p>Credit risk arises where counterparties fail to meet their financial obligations in full as they fall due. The primary sources of credit risk for the Group are from reinsurers; brokers and coverholders; investments; and financial institutions holding cash.</p>	<ul style="list-style-type: none"> Setting and regularly monitoring risk appetites. Limiting exposure to a single counterparty or a group of counterparties. Established guidelines and approval procedures for counterparties.
Liquidity	<p>Liquidity risk arises where cash may not be available to pay obligations when due at a reasonable cost. The Group is exposed to daily calls on its available cash resources, principally from claims arising from its insurance business. In most of cases, these claims are settled from premiums received.</p>	<ul style="list-style-type: none"> Liquidity management: <ul style="list-style-type: none"> using cash flow forecasting to ensure that surplus funds are invested to achieve a higher rate of return; and so that the Group can reasonably survive a significant individual or market loss event.

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

In addition to monitoring the Group's existing and established principal risks, the risk management framework is designed to support the identification of developing and emerging risks; those which have the potential to impact, or require a review of, the existing strategic objectives. The following risks have been identified as currently requiring additional commentary:

- Uncertainties related to Brexit;
- Sustainability Risk; and
- Operational Resilience.

Uncertainties related to Brexit

TME was established in response to the United Kingdom's vote to leave the EU and commenced underwriting on 1 January 2019. The United Kingdom left the EU on 31 January 2020 and entered the transition period which will end on 31 December 2020. The terms of the future relationship between the UK and EU post-Brexit will be negotiated during the transition period. The creation of TME and its successful operation during 2019 ensures that the Group is able to provide continuous service to its European clients irrespective of the outcome of the Brexit negotiations.

Sustainability Risk

The issue of sustainability, whether it relates to the strategic and operational risks of addressing environmental, social and governance concerns, including climate change, or our social responsibilities to both our external and internal stakeholders, is not a new risk, but its profile has been raised significantly in 2019.

Progress has been made by the Group in 2019 towards articulating its philosophy related to Sustainability, and all its component elements, through the establishment of a Sustainability Committee. This Board committee, and its various sub-groups, have responsibility for agreeing the sustainability strategy and risk appetite and will coordinate the advancement and implementation of sustainability initiatives, as well as initiating development of potential stress and scenario tests which may provide insight into the climate change risks. Sustainability risk is also in the process of being incorporated into the Group's risk management framework.

Operational Resilience

Operational resilience, which relates to the ability of an insurer to absorb shocks and maintain smooth business services during adverse conditions, is another topic with a currently elevated profile. While operational resilience has been embedded within existing business continuity processes for many years, the fresh regulatory focus gives the Group the opportunity to review and further develop a robust operational resilience framework in 2020.



Covid-19

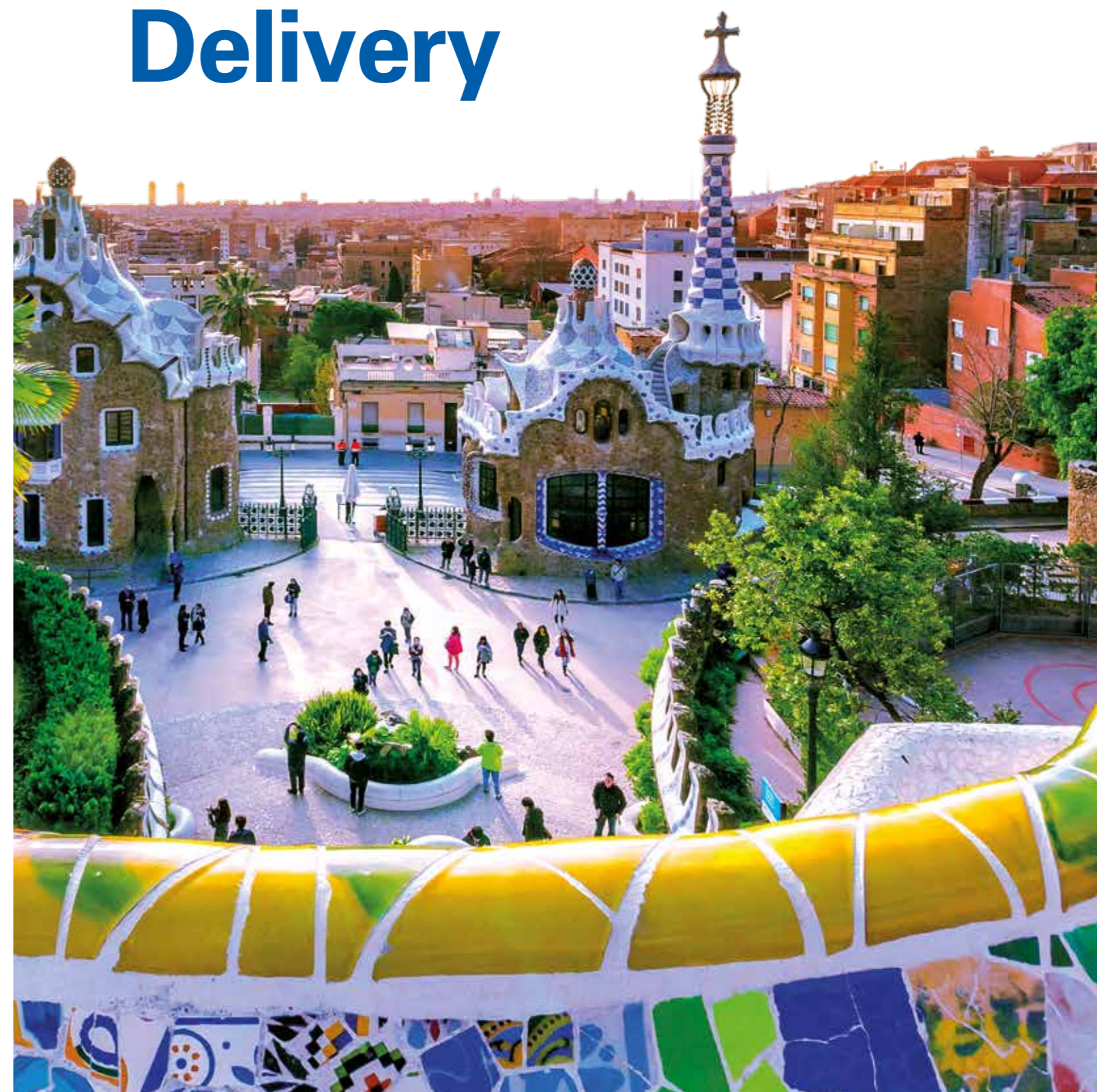
The Group's strong risk and governance frameworks remain in place and continue to operate effectively in the new pandemic environment. Part of the adaptation to that new environment has been the development of a pandemic risk register to sit alongside the

existing frameworks and which will be incorporated into reporting to the Risk & Capital Management Committee. The table below illustrates the principal potential risks for the Group's business and operations by risk area, that were identified as a result of the pandemic risk review. The overall strategy of the Group

includes some fundamental aspects which will mitigate the potential impacts of these Covid-19 risks and the various mitigations in place to reduce the impact of these risks are also described in the table below.

Risk Area	Principal Potential Pandemic Risks	Mitigating actions/factors
Insurance	<ul style="list-style-type: none"> Increased claims activity. Reinsurance exhaustion. Insufficient reserves held. Reduction in future business. Inability to purchase future reinsurance. 	<ul style="list-style-type: none"> Contract-by-contract review of direct and indirect potential exposures. Consideration of the impact of the global economic environment on the portfolios. Daily underwriter briefings ensure senior management is kept abreast of the rapidly developing market conditions, enabling the business to operate proactively. Comprehensive outwards reinsurance purchased from high quality reinsurers with whom the Group has long-standing trading relationships. Several unlimited Quota Share treaties in place (internal and with third parties) for a number of lines of business. Partnering with reinsurers as claims develop. Reserving policy produces accurate and reliable estimates that are consistent over time and across classes of business.
Strategic, Regulatory and Group	<ul style="list-style-type: none"> Inability to implement strategy. Inability to meet future business plan targets. Failure of other TM Group companies. 	<ul style="list-style-type: none"> Diversified and well-balanced portfolio of business comprised of a number of non-correlating lines of business. Comprehensive outwards reinsurance purchased from high quality reinsurers with whom the Group has long-standing trading relationships. Maintain good liquidity. Reserving policy produces accurate and reliable estimates that are consistent over time and across classes of business. Regular monitoring of regulatory capital and maintenance of a high excess over regulatory capital. Each TM Group company independently capitalised.
Market	<ul style="list-style-type: none"> Investment market volatility. Asset /Liability mismatch due to different claims/premium profiles. 	<ul style="list-style-type: none"> Investment in secure and readily realisable assets.
Operational	<ul style="list-style-type: none"> Inability of the business to fully work remotely. Staff welfare/sickness issues. IT Security / Fraud issues. Outsourcing arrangements do not function as expected. 	<ul style="list-style-type: none"> IT infrastructure and software has enabled a smooth transition to remote working without substantial disruption. Early instigation of the established business continuity protocols, which included specific pandemic responses facilitating a successful quick transition of the Group's operations from primarily office-based to almost exclusively remote-based. Each material outsource arrangement has regular audits confirming the appropriateness of the supplier's own business continuity arrangements, allied with closer interaction with the suppliers during the pandemic, to ensure early identification of any potential issues. Additional monitoring of third-party outsourcing where considered appropriate.
Credit	<ul style="list-style-type: none"> Reinsurance / premium or investment counterparties unable to make payments. 	<ul style="list-style-type: none"> Comprehensive outwards reinsurance purchased from high quality reinsurers with whom the Group has long-standing trading relationships. Proactive claims mitigants in place with reinsurer involvement. Increased cash flow and reinsurance credit monitoring.
Liquidity	<ul style="list-style-type: none"> Disinvesting from assets due to increase in claim payments, delay in reinsurance recovery payments and decrease in premium inflows. 	<ul style="list-style-type: none"> Investment in secure and readily realisable assets.

Disciplined Underwriting Dedicated Delivery



Corporate Governance Report

Board of Directors

The Group Board is comprised of the Chairman; Chief Executive; Group Chief Financial Officer; Chief Underwriting Officers (London Market and Specialty); Chief Risk Officer & Chief Actuary; two Independent Non-Executive Directors; and two Non-Executive Directors. Its primary responsibility is to promote the long-term success of the Group by creating and delivering sustainable value. The Board seeks to achieve this by delivering its strategic objectives whilst ensuring that its values and culture align with that purpose.

Nick Marsh Chairman

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

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

Barry Cook

Chief Executive Officer

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

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

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

Simon Button

Chief Underwriting Officer – London Market

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

Simon is Chairman of the Sustainability Committee and a member of the EUMC – London Market and Risk and Capital Management Committees.

Simon is also the Active Underwriter of HCC Syndicate 4141 and a director of HCCUA.

Thibaud Hervy

Chief Underwriting Officer – Specialty Lines

Thibaud joined the TMHCC Group in 1992 as a Financial Lines underwriter and was appointed to the HCCII Board in 2011. He was made Chief Underwriting Officer-Specialty Lines in 2014 and prior to that he was Managing Director of HCCG, TMHCC Group's Spanish underwriting agency for 14 years.

He is a member of the EUMCs (Credit & Surety; and Professional Risks, Financial Lines, Contingency & Disability), Sustainability and Risk and Capital Management Committees.

In 2018, Thibaud was appointed as Chief Executive and a director of TME, he is also a director of HCCUA, QHL, QBuS and HCC Diversificación y Soluciones.

Katherine Letsinger

Group Chief Financial Officer

Katherine joined the Group and the HCCII Board as Group Chief Financial Officer in 2012. She is a Certified Public Accountant, qualifying with PriceWaterhouse Coopers LLP (PwC) in the United States.

Katherine has over 35 years of experience in the insurance industry, gained through various roles including Insurance Services Partner at PwC, and senior CFO roles at Wellington Underwriting plc (FTSE 250) and General Re, Ltd. She has previously held a number of Non-Executive Directorships, including Chairing an Audit Committee.

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

Graham White

Chief Actuary & Chief Risk Officer

Graham joined the Group in February 2016 as Chief Actuary and was appointed to the Board in 2017 as Chief Actuary & Chief Risk Officer. He is a Fellow of the Institute of Actuaries and has over 30 years' experience in the Lloyd's London and International insurance markets. Prior to joining the Group, Graham was Chief Actuary and director of a Lloyd's syndicate for 10 years.

Graham is a member of the Risk and Capital Management, Data Protection and Sustainability Committees. He is a director of HCCUA and was appointed to the TME board in December 2019.

Hans-Dieter Rohlf

Independent Non-Executive Director

Hans joined the Board in 2013 as an independent Non-Executive Director and Senior Independent Director. He is a member of the Audit, Risk and Capital Management and Nomination Committees and in 2018 was appointed Chairman of the TME Board.

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

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

Craig Scarr

Independent Non-Executive Director

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

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

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

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

Nick Hutton-Penman

Non-Executive Director

Nick was appointed to the Board of HCCII in 2005 after joining the TMHCC Group in 2002. From 2006 to September 2019 Nick was the Group's Chief Operating Officer, moving to the Group's affiliate, TMK as Deputy Chief Executive on 1 October 2019 and was appointed to the board of Tokio Marine Kiln Insurance Services Limited in October 2019.

Nick is a Chartered Accountant with over 30 years' experience in the Lloyd's, London and International insurance markets.

During 2019 (until 1 October) Nick was a member of the EUMCs (London Market; Credit & Surety; and Professional Risks, Financial Lines, Contingency & Disability), Investment, Remuneration and Risk and Capital Management Committees. He was also a director of TME from February 2018 to October 2019 and is a director of HCCUA.

Kiichiro Hatakeyama

Non-Executive Director

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

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

Corporate Governance Report continued

Board members and attendance

There were six scheduled Board meetings held during 2019. The following table shows each director's attendance at meetings of the Boards during the financial year. The Chairman meets privately with the independent Non-Executive Directors before each scheduled Board meeting.

Member	Eligible to attend	Attended
Simon Button	6	6
Barry Cook	6	5
Kiichiro Hatakeyama**	2	2
Thibaud Hervy	6	6
Hideyuki Ishii*	2	2
Nick Hutton-Penman	6	6
Katherine Letsinger	6	6
Nicholas Marsh	6	6
Hans-Dieter Rohlf	6	6
Craig Scarr	6	6
Graham White	6	6

*Hideyuki Ishii resigned from the Board on 31 March 2019

** Kiichiro Hatakeyama was appointed to the Board on 1 September 2019.

Board's Activities in 2019

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

Strategy/Business Performance	Risk & Capital	Governance
<ul style="list-style-type: none"> Approved the Annual Report & Accounts 2018. Set and approved the 2020-2022 budget and Strategic Business Plan. Received detailed reports on the Group's business and financial performance and considered performance against budget. Received updates on the Group's 2019 Outwards Reinsurance Programme. Frequently considered the insurance market environment and rates, including the impact of market losses, new and existing markets, regulatory changes and the resulting impact on the industry as a whole. Considered and approved strategic initiatives proposed by management. Received updates on progress against strategic initiatives. Frequently considered the evolving economic, political, regulatory and market conditions relative to Brexit. Received updates on TME's operation, including the Part VII Transfer and the business integration. 	<ul style="list-style-type: none"> Conducted quarterly reviews of the Group's risk profile and risk register covering key internal and external risks, and emerging risks. Received quarterly updates on the Group's strategic risk metrics and conducted an annual review of the risk appetites and metrics. Regularly reviewed key risks, together with the adequacy of mitigation controls. Formal review and approval of ORSA and Validation Reports. Approved the Capital for the Group. Considered the adequacy of capital to support the 2020 -2022 budget and Strategic Business Plan. Reviewed the Standard Formula vs. Internal Model results. 	<ul style="list-style-type: none"> Received regular reports from the Chairs of the Audit, Risk and Capital Management, Investment, Remuneration and Nomination Committees on activities and recommendations of the Committees. Monitored regulatory and legislative developments and considered any potential impacts on the Group's business. Reviewed and approved the Modern Slavery statement. Received updates on legal, regular and corporate governance matters including Terms of Reference, UK Corporate Governance requirements, Senior Managers & Certification Regime (SM&CR) and confirmed the responsibilities of the directors, the Board and the Committees in light of the changes to UK Corporate governance and SM&CR requirements. Considered and reviewed the composition of the Board and its Committees and the appropriateness of the governance framework. Received regular reports from the International Compliance and Data Protection departments. Subsidiary governance - approved increases in share capital, share premium and appointment of directors. Conducted an internally facilitated Board Evaluation covering the Board's effectiveness.

Board Training

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

Financial Lines Reserving

Property D&F

Market Catastrophes



Corporate Governance Report continued

Audit Committee

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

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

Craig Scarr, a Chartered Accountant, was appointed Chair of the Committee on 2016. In 2019, the Audit Committee comprised two other independent Non-Executive Directors; Nick Marsh and Hans-Dieter Rohlf. The Board is satisfied with the recent and relevant financial experience of the Committee Chairman.

Remuneration Committee

The Committee's primary objective is to oversee the remuneration arrangements for all employees within the Group, ensuring that the framework for remuneration is one that will enhance the Group's resources by attracting, retaining and motivating employees to the Group's strategic objectives within a framework that is aligned with the Group's risk management framework and long-term strategy. The Group believes that the right remuneration arrangements encourages effective risk management, discourages excessive risk taking and short termism and supports the appropriate conduct culture, whilst

providing a framework to ensure that employees receive a competitive and market aligned remuneration package that encourages employees to create sustainable results.

In 2019, the Remuneration Committee was chaired by Nick Marsh, an independent Non-Executive Director and other members include Barry Cook (Chief Executive), Katherine Letsinger (Group Chief Financial Officer) and the Head of HR.

Nomination Committee

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

The Committee's primary objective, when necessary, is to identify and evaluate candidates for future appointments and, in doing so, will follow its appointments procedure which includes taking advice from independent external recruitment consultants. In 2019, the Committee was chaired by Nick Marsh and comprised of two other independent Non-Executive Directors (Hans-Dieter Rohlf and Craig Scarr) and Barry Cook, Chief Executive.

Investment Committee

The primary purpose of this Committee is to assist the Board by overseeing the management, understanding and quantification of investment risk. The Committee is responsible for: ensuring that the funds of the Group are invested in accordance with its strategy, policy and the Prudent Person Principal, monitor the performance of investments, including the performance of external investment managers and take appropriate action where investments cease to comply with the investment guidelines.

Katherine Letsinger, Group Chief Financial Officer chairs this Committee and in 2019 its membership was comprised of Nick Marsh (independent Non-Executive Director), Barry Cook (Chief Executive), TMHCC Group's Chief Financial Officer and TMHCC Group's Head of Investments.

Sustainability Committee

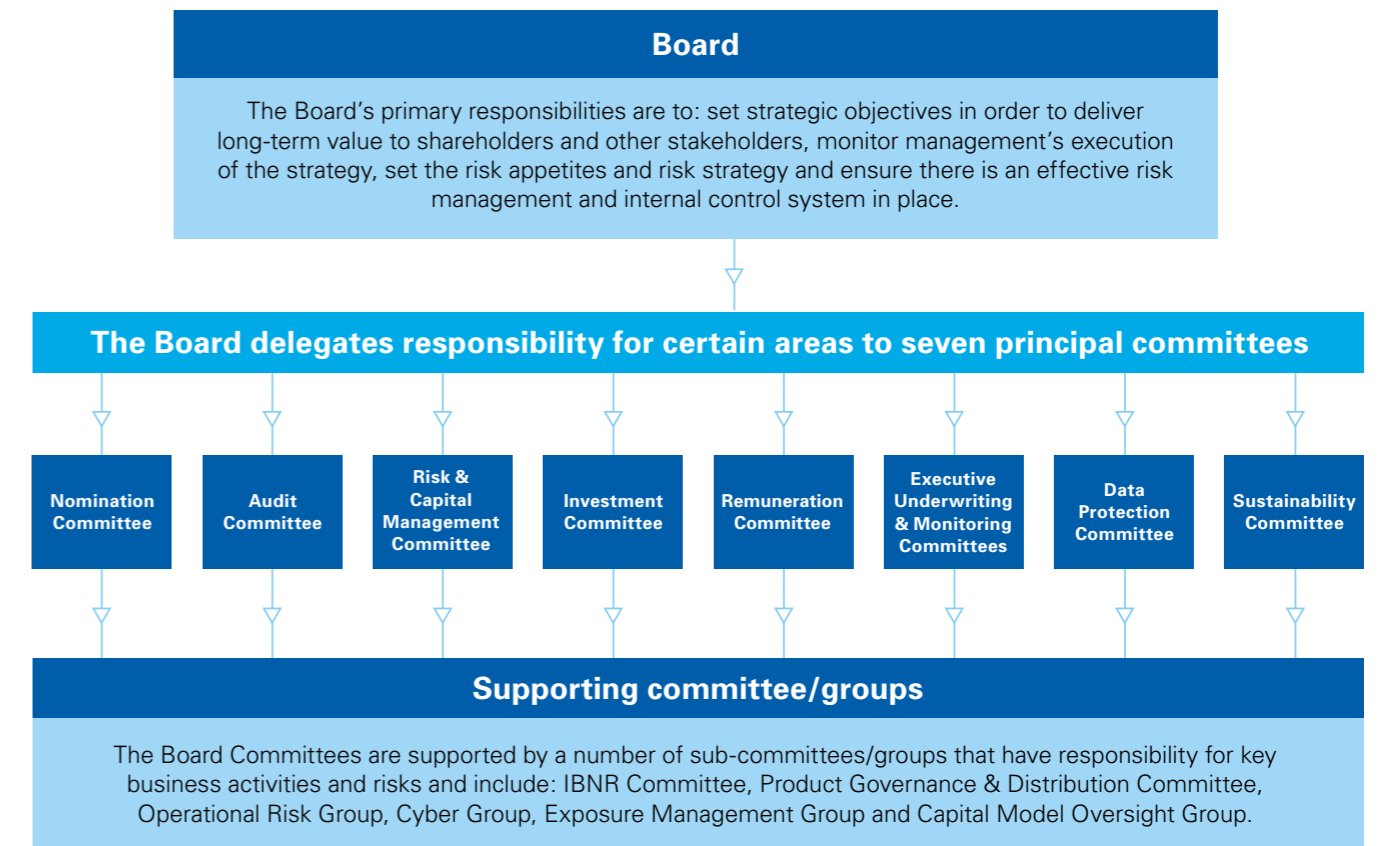
The Committee was established in Q4 2019 to explore the Environment, Social and Governance (ESG) risks, trends, and opportunities that might impact the Group's business. The Committee is chaired by Simon Button, Chief Underwriting Officer – London Market, the composition includes all of the Executive Directors, Craig Scarr (independent Non-Executive Director), and functional heads including the Head of HR, Head of Marketing, Head of International Compliance and the Company Secretary.

Risk and Capital Management Committee

The Group has a Risk and Capital Management Committee that oversees the Group's risk management framework and approach to capital. The main responsibilities of the Committee are to make recommendations to the Board in respect of its risk strategy, risk appetites and tolerances, ensure there is an effective and integrated risk management framework in place that allows inherent and emerging risks to be identified and monitored and mitigated in a timely manner (Principle Risks and Uncertainties pages 28-30 and Note 6), and recommend to the Board the regulatory capital requirements.

In 2019, the Committee was chaired by Craig Scarr (independent Non-Executive Director) and the Committee was also comprised of Hans-Dieter Rohlf (independent Non-Executive Director) and functional leaders, including the Head of International Compliance, Head of Prudential Regulation and Governance and Chief Information Officer. The Board remains satisfied that the composition of the Committee strengthens the Group's risk management framework and that the Committee remains focused on the key risks affecting the Group's financial and operating performance.

Governance Structure



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

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

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

Data Protection Committee

The Committee's purpose is to oversee TMHCC Group's data protection framework, monitoring its effectiveness to ensure the risk of regulatory or legal

exposure is minimised and TMHCC Group fosters a sense of trust with its data subjects.

During 2019, the Committee was chaired by the Head of International Compliance and Data Protection Officer and the Chief Risk Officer & Chief Actuary was a member of the Committee along with functional heads from TMHCC Group and TMHCC International. The main responsibilities of the Committee are the annual production of a Data Protection Plan for TMHCC Group, to monitor any data breaches and data subject access requests.

Corporate Governance Statement

For the year ended 31 December 2019, the Group has applied the Wates Corporate Governance Principles for Large Private Companies (published by the Financial Reporting Council (FRC) in December 2018 and available on the FRC website).

Principle 1 – Purpose & Leadership

The specialty insurance sector provides risk solutions to companies which are complex or in an industry which needs bespoke solutions, often in a fast-changing environment. The Group's purpose is to deliver risk solutions to its clients which provide continuity in times of business disruption. Highly specialised, quality underwriting which delivers clearly articulated and transparent products will inspire the trust and confidence of our clients.

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

The overarching TM Group Good Company vision, which incorporates the fundamental values to look beyond profit, empower our people and deliver on commitment, is consistent with the purpose described above.

Principle 2 – Board Composition

Biographies of each Director can be found on pages 32-33 of the Corporate Governance Report.

The Board is comprised of the independent non-executive Chairman, five executive directors, two independent Non-Executive Directors and two Non-Executive Directors and is supported by the Company Secretary. The Nomination Committee and the Board confirmed in Q4 2019 that the composition of the Board and its Committees was appropriate given the scale and complexity of the business.

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

The independent Non-Executive Directors bring experience in insurance, reinsurance, finance, audit, risk, governance, operations and the wider TM Group. In addition, they provide the Board with a diversity of perspectives and objective challenge from outside the Group. The Non-Executive Directors held regular meetings with the Chairman during 2019 and these meetings provided them with the opportunity to exchange views without the presence of the Executive Directors.

The Group recognises the benefits of diversity for the Board and is committed to ensuring that its membership reflects diversity in its broadest sense. A combination of demographics, skills, experience, age, ethnicity, gender,

educational and professional background and other relevant personal attributes on the Board is important in providing a range of perspectives and challenge needed to support good decision making. The Group is committed to making its business a more inclusive environment which will foster a more diverse workforce that should increase diversity at the most senior levels.

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

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

The Executive team, comprised of the Chief Executive, Group Chief Financial Officer and the two Chief Underwriting Officers ensure that the values, strategy and culture align, are implemented and communicated to employees, for example through the results presentations and annual town hall conferences.

The directors update their skills, knowledge and familiarity of the business by meeting with senior management, receiving regular presentations at board meetings from specific departments

or lines of business within the Group, as well as from externally facilitated training. The Group has an induction programme for all new directors which is individually tailored according to the specific experience and knowledge of the new director, it provides the new director with access to all areas of the business and its key individuals. As part of their induction Directors are briefed on their duties under s172 of the Companies Act 2006 and they are able to access advice on these areas throughout their tenure from either the Company Secretary or an independent external advisor.

During the year Kiichiro Hatakeyama received a tailored induction programme arranged by the Company Secretary which included meetings with the Executive and Non-Executive Directors and other members of the Senior Management team.

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

In 2019 the Board Effectiveness Review was internally facilitated, and the Board will agree an action plan from this review, early in 2020.

Principle 3 – Director Responsibilities

Accountability

The Group's governance framework supports the business to make effective decisions. Whilst the Board has overall responsibility and oversight, the Group's governance structure is designed to ensure that key decisions are made by the individuals and committees with the most appropriate knowledge and experience. The Board has a schedule of six principal meetings a year and there is a process by which any significant matters are communicated to the Board outside of its scheduled meetings. The Board's key areas of focus in 2019 are included on page 35.

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

Directors, Heads of Department, Underwriting and Claims employees are required to complete and annual Conflicts of Interest declarations. These declarations are collated by the International Compliance department and where there are potential conflicts, appropriate safeguards and processes

have been put in place. The Company Secretary receives annual confirmation of any Conflicts of Interest for the Board directors and there is a process in place for the Non-Executive Directors to disclose any potential conflicts to the Chairman and Chief Executive.

Committees

The Board is assisted in the discharge of its duties by a number of Board committees (Audit, Risk and Capital Management, Remuneration, Nomination, Investment, and Sustainability). Each committee has defined areas of responsibility which are set out in their Terms of Reference. The remit and responsibilities of the Board's committees are set out on pages 36-37. The Nomination Committee undertook a review of the governance structure following changes to the senior management team in Q4 2019 and changes to the governance structure and composition of the committees were recommended to and approved by the Board. The Sustainability Committee was newly established in 2019 and further information on this committee can be found on page 36.

Integrity of Information

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



Corporate Governance Statement continued

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

The Group has an internal controls system which is designed to provide assurance that the information reported is accurate, reliable, compliant with applicable laws and regulations and that its operations are effectively controlled.

The Group's internal controls system is reviewed annually as part of the programme of internal controls testing that is undertaken by the International Internal Audit department.

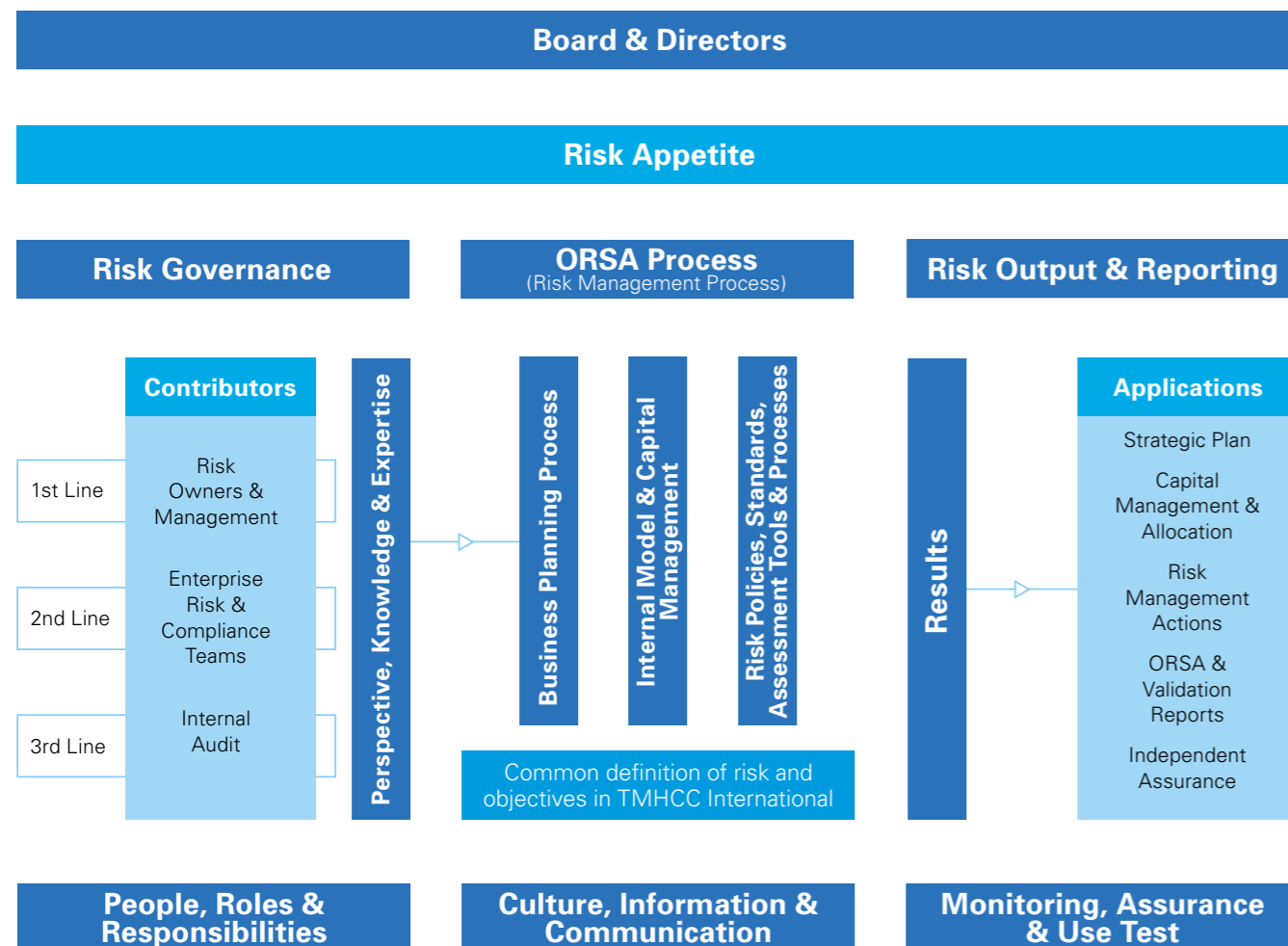
The Board has delegated its responsibility for maintaining and monitoring the effectiveness of the system of internal financial controls and internal controls to the Audit Committee which receives regular reports from the International Internal Audit department.

Principle 4 – Opportunity & Risk

Opportunity

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

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



Risk and Responsibilities

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

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

The Group's principal risks and uncertainties and mitigations are set out on pages 28-30 of the Strategic Report. The Board accepts that the Group's business operations cannot be risk free, therefore the ERM framework is designed to manage risk to a desired level and minimise the adverse effects of any residual risk, rather than to entirely eliminate the risk.

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

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

The diagram on page 40 illustrates the Group's ERM framework; demonstrating how Risk Appetite, Risk Governance, Risk Management, Risk Output and Monitoring interact with one another.

- **Risk Appetite** – the level of business risk the Group will take in order to achieve the strategic objectives. The Group has established risk appetite statements, which, provide assurance that the Group is able to manage or absorb the impact of a risk, in the event that it materialises.
- **Risk Governance** – includes risk policies and procedures, Risk and Capital Management Committees and roles and responsibilities ('three lines of defence').
- **Risk Management** – the processes used to identify, measure, manage, monitor and report risks, including the internal capital model, and stress and scenario testing, are designed to enable dynamic risk-based decision-making and effective day-to-day risk management.

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

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

Principle 5 – Remuneration

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

The Remuneration Committee has defined terms of reference and is chaired by an Independent Non-Executive Director. The Committee is responsible for reviewing the ongoing appropriateness of the Remuneration Policy and approving the remuneration arrangements for all employees. Pay is aligned with performance and considers fair pay and conditions across the Group.

The Group is an active equal opportunities employer and promotes an environment free from discrimination, harassment and victimisation, where everyone receives equal treatment and career development regardless of age, gender, nationality, ethnic origin, religion, marital status, sexual orientation or disability. All decisions relating to employment practices (including remuneration) are objective, free from bias and based solely upon work criteria and individual merit.



Corporate Governance Statement continued

Principle 6 – Stakeholders

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

The Board ensures it has effective relationships with all stakeholders through ongoing dialogues which are open, co-operative and transparent. A table showing how the Group has engaged with its stakeholders during the year is set out on pages 42-43.

s172 Companies Act 2006

The Board makes decisions for the long term, to ensure the business remains sustainable. The Board acknowledges that strong relationships with its key stakeholders: employees, shareholders, clients, brokers, regulators, community and the environment, are vital to its ongoing success.

In the decisions taken during the year, the Board has considered its responsibilities under s172 of the Companies Act 2006 and have acted in accordance with those responsibilities during the year to promote the success of the Group.

The Board ensures that it considers the impact of strategic and operational decisions on the Group’s stakeholders and examples during the year include the Part VII Transfer, cross-border merger and establishment of the Delegated Property line of business and discharges its s172 responsibilities through a combination of the following:

- standing agenda points and papers presented at each Board meeting;

- a rolling agenda of matters to be considered by the Board throughout the year, which includes consideration of the Strategic Business Plan, supported by a 3-year budget;
- regularly scheduled Board presentations and reports which include areas which are important to the Group’s stakeholders, for example, Modern Slavery statement and updates on climate change/sustainability;
- formal consideration of the s172 factors which are relevant to any major decisions taken by the Board, including acquisitions, new/exited lines of business;
- consideration and discussion of areas relevant to stakeholders through the risk management framework and governance structure via standing agenda items at meetings of the Board’s Committees and sub-committees/groups; and
- engagement with key stakeholders during the year, illustrated in the table on pages 42-43.

How the Board has engaged with its stakeholders

Stakeholder	Engagement Activities
<p>Employees</p> <p>The Group has experienced, diverse and dedicated employees which are a key asset to the business and fundamental to its long-term success.</p> <p>A key element of TM Group’s ‘Good Company’ ethos is <i>Empower our people</i> therefore, it is important that the Group continues to engage with and provide opportunities for employees.</p>	<p>The Group has a number of established engagement mechanisms in place. TMHCC Group undertakes Employee Engagement survey and the engagement in the 2019 survey was 80%, the overall results continue to improve and the area which scored significantly higher compared to the previous survey results were: Group Attachment.</p> <p>Throughout the year, employees also received regular updates and presentations, including annual and departmental Town Hall meetings; and results presentations. Feedback and questions are encouraged at all of these forums.</p> <p>During 2019, changes were made to the Group’s governance structure, incorporating a Sustainability Committee and three sub-groups (Workplace, Charity, Marketplace & Environment). The Workplace Group includes members of the Executive and Senior Management teams and employees from different departments throughout the Group. The Workplace Group provides an additional opportunity for the Group to engage with its employees and its activities are communicated to the Board through the Sustainability Committee.</p>

Stakeholder	Engagement Activities
<p>Shareholders</p> <p>The Board continues to align its strategic objectives with its purpose and to its shareholders’ long-term objectives in order to produce consistent and sustainable results which increase shareholder value.</p>	<p>The Group’s Board ensures that in all of its decision making it is acting in good faith and for the benefit of its shareholders.</p> <p>The Group has an ongoing dialogue and regular engagement with its shareholder, through regular communications and quarterly results presentations. Kiichiro Hatakeyama is the TM Group representative appointed to the Group’s Board and this provides an additional method of communication between the Board and its shareholder.</p>
<p>Clients</p> <p>The Group’s continued strong performance would not be possible without understanding our clients’ needs and providing them with the right solutions through its distribution network, enabling them to take on opportunity with confidence.</p>	<p>The Group understands the importance of building long-term relationships with its clients and taking the time to understand its client’s individual requirements. During the year there was ongoing engagement facilitated through broker and the distribution network; and client meetings.</p>
<p>Brokers</p> <p>The International Specialty, London Market and products European P&C underwritten by the Group are distributed to its clients through established broker (wholesale, regional and specialty) relationships.</p>	<p>The Group’s relationships with its brokers is key to its business. Ongoing engagement with brokers is facilitated through the individual lines of business, the business development teams that support specific underwriting teams and the marketing department which coordinates broker events.</p> <p>During the year, the Group’s underwriters, Senior and Executive Management teams attend industry events which provide further opportunities for them to engage with brokers.</p>
<p>Regulators</p> <p>The Group is authorised by the PRA and regulated by the FCA in the UK and authorised by the CAA in Luxembourg.</p>	<p>The Group maintains an open and transparent dialogue with its regulators which is facilitated through the Compliance department. The Executive and Non-Executive Directors have ongoing engagement with the Group’s regulators, including requests to discuss specific matters. Regulatory communications and discussions are reported to the Board.</p>
<p>Environment</p> <p>The Group continues to investigate and identify environmental and climate -related risks and opportunities.</p>	<p>During 2019 the Group established a Sustainability Committee to ensure there was an appropriate forum for the consideration of ESG matters relevant to the Group’s business, including the environment and climate change risk. This committee is chaired by Simon Button, Chief Underwriting Officer - London Market and the committee reports to the Group’s Board on a quarterly basis.</p> <p>In addition, the Group engages on areas related to the environment through its membership of ClimateWise and participant in ClimateWise’s working groups/committees; and its completion of the Energy Saving Opportunity Scheme (ESOS) assessment.</p>
<p>Community</p> <p>A core component of TM Group’s ‘Good Company’ ethos is <i>Look beyond profit</i>, acting with integrity for the benefit of society.</p> <p>The Group is committed to supporting the communities in which we operate.</p>	<p>The Group engages with its local communities through its charity partnerships and charity ambassadors, fundraising events, volunteering and providing employment opportunities.</p> <p>The Group’s charitable and community activities are communicated to the Board via the Sustainability Committee.</p>

On behalf of the Board



BJ Cook
 Chief Executive Officer
 1 Aldgate
 London EC3N 1RE
 22 April 2020

Directors' Report

The directors present their Directors' Report and the audited financial statements of the Group for the year ended 31 December 2019.

Directors' Report content

The directors present their Directors' Report and the audited financial statements of the Group for the year ended 31 December 2019.

The directors report is on pages 44-45. Additional information is incorporated into this Directors' Report by reference and should be read as part of it, including information required by the Companies Act 2006 which is contained in the Corporate Governance Statement on pages 42 and 43 and in the Strategic Report set out on pages 2-43.

Strategic Report

The Group is required to produce a fair review of the Group's business for the financial year. The Strategic Report details the Group's business strategy and business model, location of branches outside the UK, a description of the principal risks and uncertainties, a review of the Group's activities and the position of the Group at 31 December 2019 as well as its prospects for the future.

Board of Directors

The directors of the Group set out below have held office from 1 January 2019 to the date of this report unless otherwise stated:

S A Button
 B J Cook (Chief Executive Officer)
 K Hatakeyama (appointed 1 September 2019)
 T J G Hervy
 N I Hutton-Penman
 H Ishii (non-executive) (resigned 31 March 2019)
 K L Letsinger
 N C Marsh (non-executive Chairman)
 H-D Rohlf (non-executive)
 C Scarr (non-executive)
 G R A White

Indemnification of directors and directors' and officers' insurance

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

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

Conflicts of interest

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

Financial instruments

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

Independent auditor and disclosure of audit information

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

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that

they give a true and fair view of the of the Group and of the profit or loss of the Group for that period. In preparing the financial statements, the directors are required to:

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

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

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

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

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

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

Going concern

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

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

Share Capital

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

Voting

Each Ordinary Share of HCCII carries one vote.

Substantial Shareholding

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

Dividends

Dividend paid during the year totalled \$nil (2018: \$nil). No final dividend is recommended.

Post Balance Sheet events

GCube Acquisition

The Group announced in March 2020 that it has signed an agreement to acquire GCube, the managing general agent which is one of the largest global underwriters of renewable energy, covering wind, solar, bio, hydro, wave and tidal projects. The acquisition demonstrates the Group's commitment to the renewable energy insurance market and its desire to actively address the issues around sustainability, helping us move towards a safe, secure and sustainable future. The acquisition is expected to complete during Q2 2020, and the Group has sufficient capital resources to fund this acquisition. The Group believes that this strategic acquisition complements the business currently written by the Group and provides further opportunities for growth and diversification.

Covid-19

The outbreak of the coronavirus pandemic (Covid-19) is unprecedented and will have a material impact on the global economy and the insurance market. Given this, management and the Board have been assessing and will continue to assess the impact of Covid-19 on the Group's current and future trading outlook and its ability to continue as a going concern. This includes the effect on underwriting, operational and liquidity risks and the Group's solvency position.

The Group's business portfolio is diversified and those businesses which have a direct exposure to losses associated with Covid-19 have comprehensive reinsurance with high quality reinsurers with whom it has had long trading relationships. Additionally, the IT infrastructure of the Group enables remote working so that the highly skilled and dedicated employees can continue normal operational processes without substantial disruption. This enables the Group to continue to service its policyholders. The investment portfolio is conservatively invested, and the Group has substantial liquidity. Although it is early to conclude a comprehensive assessment as to the impact on the Group, the Board has concluded that this post balance sheet event is a non-adjusting event and it will not have an impact on the Group's ability to continue as a going concern.

On behalf of the Board



J L Holliday
 Company Secretary
 Registered in England and Wales at
 1 Aldgate
 London, EC3N 1RE
 Company number 01575839
 22 April 2020

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

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2019 and of the Group's profit and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual

report and consolidated financial statements (the "Annual Report"), which comprise: the consolidated and Company balance sheets as at 31 December 2019; the consolidated profit and loss account and consolidated statement of other comprehensive income, the consolidated statement of cash flows, and the consolidated and Company statements of changes in shareholder's equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

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

Basis for opinion

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

and appropriate to provide a basis for our opinion.

Independence

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

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

Other than those disclosed in note 11 to the financial statements, we have provided no non-audit services to the Group or the Company in the period from 1 January 2019 to 31 December 2019.

The scope of our audit

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

Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the Group and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK and European regulatory principles, such as those governed by the Prudential Regulation Authority and the Financial Conduct Authority, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006, Prudential Regulation Authority's regulations, UK tax legislation and equivalent local laws and regulations in Europe. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to management bias in accounting estimates and judgmental areas of the financial statements. The Group engagement team shared this risk assessment with the component auditors so that they could include appropriate audit procedures in response to such

risks in their work. Audit procedures performed by the Group engagement team and/or component auditors included:

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

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

Our audit approach



Overview

- Overall Group materiality is \$6.8 million (2018: \$5.7 million). This represents the amount it would take to increase the Group's Combined Operating Ratio (excluding other technical income) ("COR") by 1%.
- Overall Company materiality is \$6.2 million (2018: \$5.6 million). This represents the amount it would take to increase the Company's COR (excluding other technical income) by 1%.
- We performed full scope audit procedures over the Group's UK insurance company and European insurance company operations.
- We identified certain other operations where account balances were significant by virtue of materiality in size or audit risk. These balances were scoped into our audit through specified procedures.
- Valuation of claims incurred but not reported ('IBNR') reserves and the associated reinsurers' share of claims IBNR reserves (Group and Company).
- Going concern and the impact of COVID-19 (Group and Company).

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

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement

(whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the

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

Key audit matter	How our audit addressed the key audit matter
<p>Valuation of claims incurred but not reported ('IBNR') reserves and the associated reinsurers' share of claims IBNR reserves</p> <p>Refer to item 3f (e & f) in the Summary of significant accounting policies and to note 22 and 36 to the Group and Company's financial statements for disclosures of related policies and balances</p> <p>Claims IBNR reserves and the associated reinsurers' share of claims IBNR reserves represent a significant accounting estimates in the financial statements.</p> <p>As at 31 December 2019, the value of the Group's claims IBNR reserves and the associated reinsurers' share of IBNR reserves is \$516.2 million and \$187.3 million respectively. These estimates are included within technical provisions - gross claims outstanding of \$1,106.6 million and the reinsurers' share of claims outstanding of \$466.3 million as set out in Note 22.</p> <p>As at 31 December 2019, the value of the Company's claims IBNR reserves and the associated reinsurers' share of IBNR reserves is \$374.0 million and \$62.0 million respectively. These estimates are included within technical provisions - gross claims outstanding of \$775.2 million and the reinsurers' share of claims outstanding of \$189.4 million as set out in Note 36.</p> <p>The methodologies and assumptions used by the directors to estimate the Group and Company's claims IBNR reserves and the associated reinsurers' share of claims IBNR reserves involves a significant degree of judgement.</p> <p>Key areas of focus in our audit of the Group and Company's claims IBNR reserves and the associated reinsurers' share were:</p> <ul style="list-style-type: none"> The underlying volatility attached to estimates for the larger classes of business, such as Financial Lines and Liability classes, where small changes in assumptions can lead to large changes in the level of the estimate held. The risk of inappropriate assumptions used in determining current year estimates. Given that limited data is available for some classes of business, there is greater reliance on expert judgement in their estimation. The consistency of the directors' approach to estimating and recognising adjustments to reflect uncertainty for specific claims. 	<p>We have understood, evaluated and tested the design and operational effectiveness of relevant controls in place in respect of the valuation of claims IBNR reserves and the associated reinsurer's share of claims IBNR reserves, which included controls over the reconciliation of data from the underlying systems and the review and approval of the claims IBNR reserves and the associated reinsurers' share of claims IBNR reserves by the directors. We have also agreed underlying source data back to supporting documentation.</p> <p>In performing our detailed audit work over the valuation of claims IBNR reserves and the associated reinsurer's share of claims IBNR reserves we used actuarial specialists. Our procedures included:</p> <ul style="list-style-type: none"> Developing independent point estimates for classes of business considered to be higher risk, particularly focusing on the largest and most uncertain estimates, as at 31 August 2019 and performing roll-forward procedures to 31 December 2019; Testing, for certain other classes of business, the methodology and assumptions used by the directors to derive the claims IBNR reserve estimates and assessing whether these produced reasonable estimates based on underlying facts and circumstances; Performing analytical audit procedures over the remaining classes of business to ascertain the reasonableness of the claims IBNR reserves; Applying gross to net ratios against the estimated claims IBNR reserves to calculate the estimated reinsurers' share of claims IBNR reserves. Comparing our estimates, based on the procedures performed above, to those booked by management. <p>Based on the work performed we found that the claims IBNR reserves and the associated reinsurers' share of claims IBNR reserves were supported by the evidence we obtained.</p>

Key audit matter

Going concern and the impact of COVID-19

Refer to note 27 to the financial statements for associated disclosures

As disclosed in note 27, subsequent to the balance sheet date and up to the point of reporting there has been a global pandemic of a new strain of Coronavirus (COVID-19) which has caused significant economic disruption. Management concluded that this outbreak and the subsequent spread of the virus does not provide additional evidence about the situation that existed at 31 December 2019, and as such they have treated the event as a non-adjusting post balance sheet event and disclosed it accordingly.

Management has prepared these financial statements on a going concern basis and, having assessed the heightened financial volatility and uncertainty caused by COVID-19, believes that this assumption remains appropriate.

In considering whether the Group and Company can meet its obligations as they fall due, management has assessed the impact of the outbreak of COVID-19 on the Group and Company's:

- balance sheet position (assets and liabilities);
- future cash flow forecasts and liquidity; and
- operations.

How our audit addressed the key audit matter

We agree with management's judgement that the COVID-19 pandemic represents a non-adjusting post balance sheet event for the reasons described opposite. Our work over management's assessment of the impact of COVID-19 on the Group and Company's going concern assumption, and their disclosure of the post balance sheet event included understanding and evaluating management's assessment and associated disclosures. Our approach to addressing the matter involved the following procedures:

Balance sheet analysis:

Assets:

- Obtained management's analysis of the impact of COVID-19 on the Group and Company's investment portfolio subsequent to 31 December 2019;
- Assessed the reasonableness of management's analysis, taking into consideration the Group and Company's year end investment portfolio and its exposure to certain types of assets; and
- Vouched the movement in asset valuations subsequent to 31 December 2019 to third party source data.

Liabilities:

- Using our understanding of the Group and Company and the types of insurance contracts that are underwritten we challenged the completeness of management's analysis; and
- Obtained management's COVID-19 insurance liability impact analysis, assessed the reasonableness of the analysis and stress tested it as appropriate.

Cash flow and liquidity analysis:

- Evaluated management's cash flow and liquidity position subsequent to 31 December 2019.

Operational analysis:

We also considered the operational resilience of the Group and Company by understanding the impact to date that COVID-19 has had on the operations of the Group and Company, including to outsourced services.

We used the results of our work above to assess the impact of COVID-19 on the Group and Company's operations and its ability to continue as a going concern.

Financial statement disclosure:

We assessed the disclosures made by management in the financial statements and checked the consistency of the disclosures with our knowledge of the Group and Company based on our audit and the above procedures.

The results of our procedures indicated that management's use of the going concern basis of preparation and the associated post balance sheet event disclosure was supported by the evidence we obtained.

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

How we tailored the audit scope

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

Using the outputs from our risk assessment, along with our understanding of the Group, we scoped our audit based on the significance of the results and financial position of individual components relevant to the Group result and financial position. In doing so, we also considered qualitative factors and ensured we had obtained sufficient coverage across all financial statement line items in the consolidated financial statements. Our scoping provided us with coverage of over 85% of Group profit before tax, and over 90% of Group total assets respectively.

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

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

As the Group engagement team, we determined the level of involvement required by other auditors to be able to conclude whether sufficient and appropriate audit evidence had been obtained as a basis for our opinion on the financial statements as a whole. We exercised oversight over the

work performed by other auditors by maintaining regular and timely communication, including performing video-calls, discussions and written communications as appropriate.

Materiality

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

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

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was between \$3.8 million and \$6.2 million.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above \$0.34 million (Group) (2018: \$0.31 million) and \$0.31 million (Company) (2018: \$0.3 million) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

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

We have nothing to report in respect of the above matters.

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

Reporting on other information

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

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

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

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

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities set out on page 44, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

	Group financial statements	Company financial statements
Overall materiality	\$6.8 million (2018: \$5.7 million).	\$6.2 million (2018: \$5.6 million).
How we determined it	This represents the amount it would take to increase the Combined Operating Ratio (excluding other technical income) ("COR") of the Group and Company by 1%.	
Rationale for benchmark applied	In determining materiality, we considered financial metrics which we believe relevant to the primary users of the Group and Company's financial statements. We concluded that the COR (excluding other technical income) was the most relevant benchmark as it provides an indicator of relative performance and is a focus of the directors.	

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

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no

other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

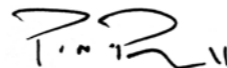
Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the audit committee, we were appointed by the directors on 14 July 2005 to audit the financial statements for the year ended 31 December 2005 and subsequent financial periods. The period of total uninterrupted engagement is 15 years, covering the years ended 31 December 2005 to 31 December 2019. There was a competitive tender process conducted by the Audit Committee during 2017. At the recommendation of the Audit Committee, we were re-appointed by the directors on 4 July 2017 as auditors for the year ended 31 December 2017.



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

London
22 April 2020

Financial statements

Consolidated Profit and Loss Account

For the year ended 31 December 2019

Technical account – general business	Note	2019 \$'000	2018 restated* \$'000
Earned premiums, net of reinsurance			
Gross premiums written	8	1,018,662	657,469
Outward reinsurance premiums		(399,635)	(141,915)
Net premiums written		619,027	515,554
Change in the gross provision for unearned premiums		(79,111)	(42,311)
Change in the provision for unearned premiums, reinsurers' share		45,946	17,526
Change in the net provision for unearned premiums		(33,165)	(24,785)
Earned premiums, net of reinsurance		585,862	490,769
Allocated investment return transferred from the non-technical account	9	28,126	25,584
Other technical income	13	5,994	5,260
Total technical income		619,982	521,613
Claims incurred, net of reinsurance			
Claims paid:			
– gross amount		(368,699)	(246,587)
– reinsurers' share		86,315	85,345
Net claims paid		(282,384)	(161,242)
Change in the provision for claims:			
– gross amount		(174,092)	(9,382)
– reinsurers' share		169,262	(41,716)
Change in the net provision for claims		(4,830)	(51,098)
Claims incurred, net of reinsurance		(287,214)	(212,340)
Net operating expenses	10	(208,690)	(190,568)
Total technical charges		(495,904)	(402,908)
Balance on the technical account for general business	8	124,078	118,705

All results derive from continuing operations.

*For details of restatement see Note 5 to the consolidated financial statements.

Non-technical account	Note	2019 \$'000	2018 restated* \$'000
Balance on the technical account for general business		124,078	118,705
Income from other financial investments	9	29,132	27,436
Investment income	9	574	(370)
Investment management fees and charges	9	(1,580)	(1,482)
		28,126	25,584
Allocated investment return transferred to the general business technical account		(28,126)	(25,584)
Unrealised gains on financial investments	9	41,693	-
Unrealised losses on financial investments	9	-	(18,888)
Bank interest receivable and similar income	9	1,844	365
		43,537	(18,523)
Net foreign exchange (losses) / gains on revaluation of monetary items		(8,057)	9,432
Other charges and other operating expenses	12	(18,229)	(13,773)
Profit on ordinary activities before tax		141,329	95,841
Tax on profit on ordinary activities	14	(36,023)	(17,725)
Profit for the financial year		105,306	78,116

Consolidated Statement of Other Comprehensive Income

For the year ended 31 December 2019

	Note	2019 \$'000	2018 restated* \$'000
Profit for the financial year		105,306	78,116
Currency translation differences		490	(616)
Total consolidated comprehensive income		105,796	77,500

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

*For details of restatement see Note 5 to the consolidated financial statements.

Consolidated Balance Sheet

As at 31 December 2019

ASSETS	Note	2019 \$'000	2018 restated* \$'000
Intangible assets			
Goodwill	15	81,204	87,102
Other intangible assets	15	34,700	38,744
		115,904	125,846
Investments			
Land and buildings	16	239	239
Other financial investments	17	1,343,533	1,178,614
		1,343,772	1,178,853
Reinsurers' share of technical provisions			
Provision for unearned premiums	22	114,832	69,049
Claims outstanding	22	466,344	240,945
		581,176	309,994
Debtors			
Debtors arising out of direct insurance operations			
- Policyholders		37,642	34,049
- Intermediaries		175,388	96,591
Debtors arising out of reinsurance operations		166,089	84,573
Other debtors	18	55,135	33,934
		434,254	249,147
Other assets			
Tangible assets	19	3,505	3,354
Deposits from third parties		53,467	57,646
Cash at bank and in hand		177,455	100,561
		234,427	161,561
Prepayments and accrued income			
Accrued interest and rent		9,802	8,569
Deferred acquisition costs	22	77,517	68,364
		87,319	76,933
Total assets		2,796,852	2,102,334

LIABILITIES	Note	2019 \$'000	2018 restated* \$'000
Capital and reserves			
Called up share capital	20	233,242	233,242
Share premium		19,115	19,115
Merger reserve		(19,115)	(19,115)
Other reserve		(1,439)	(1,929)
Profit and loss account		629,503	524,197
Total shareholder's equity		861,306	755,510
Technical provisions			
Provision for unearned premiums	22	424,012	334,313
Claims outstanding	22	1,106,565	768,391
		1,530,577	1,102,704
Creditors - amounts due within one year			
Creditors arising out of direct insurance operations		62,564	13,320
Creditors arising out of reinsurance operations		158,246	76,833
Other creditors including taxation and social security	21	48,933	42,589
Deposits from third parties		53,540	57,721
		323,283	190,463
Creditors - amounts due after more than one year			
Deferred consideration		-	9,799
Accruals and deferred income		81,686	43,858
Total liabilities		2,796,852	2,102,334

In accordance with the exemption permitted under section 408 of the Companies Act 2006, the Company profit or loss account, and Company statement of other comprehensive income are not presented as part of these financial statements. The Company's profit after taxation for the year was \$111.2 million (2018: \$72.5 million profit).

The financial statements on pages 53-107 were approved by the Board of Directors and were signed on its behalf by



K Letsinger
Director

22 April 2020

Company registration number 1575839

The Consolidated Balance Sheet should be read in conjunction with the accompanying notes.
*For details of restatement see Note 5 to the consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

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

Capital and reserves	Called up share capital \$'000	Share premium \$'000	Profit and loss account \$'000	Currency Exchange reserve \$'000	Merger reserve \$'000	Total equity \$'000
At 1 January 2018 restated*	233,242	19,115	446,081	(1,313)	(19,115)	678,010
Profit for the financial year	-	-	78,116	-	-	78,116
Other Comprehensive Income	-	-	-	(616)	-	(616)
At 31 December 2018 restated*	233,242	19,115	524,197	(1,929)	(19,115)	755,510

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

*For details of restatement see Note 5 to the consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2019

	Note	2019 \$'000	2018 restated* \$'000
Net cash inflow from operating activities	23	73,553	153,636
Interest received		30,976	27,801
Taxation paid		(26,774)	(22,788)
Net cash generated from operating activities		77,755	158,649
Cash flow from investing activities			
Acquisition of subsidiary (net of cash and assets acquired)		-	(118,880)
Purchase of tangible assets		(535)	(183)
Purchase and development of intangible assets		(326)	-
		(861)	(119,063)
Net increase in cash at bank and in hand		76,894	39,586
Cash and cash equivalents at the beginning of the year		100,561	60,975
Cash and cash equivalents at the end of the year		177,455	100,561
Cash and cash equivalents consist of:			
Cash at bank and in hand		177,455	100,561
		177,455	100,561

The Consolidated Statement of cash flows should be read in conjunction with the accompanying notes.

*For details of restatement see Note 5 to the consolidated financial statements.

Notes to the Consolidated Financial Statements

1. General information

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

2. Statement of compliance

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

3. Summary of significant accounting policies

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

a. Basis of preparation

These consolidated financial statements have been prepared in conformity with FRS 102 and 103. The basis of consolidation is explained more fully below.

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

b. Going concern

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

c. Exemptions for qualifying entities under FRS 102

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

- From preparing a statement of cash flows, on the basis that it is a qualifying entity and the consolidated statement of cash flows, included in these financial statements, includes the Company's cash flows;
- Related party disclosures, and
- From disclosing key management personnel compensation, as required by FRS 102 paragraph 33.7.

d. Basis of Consolidation

The Group consolidated financial statements include the financial statements of the Company and all of its subsidiary undertakings made up to 31 December 2019.

A subsidiary is an entity controlled by the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Where the Group owns less than 50% of the voting powers of an entity but controls the entity by virtue of an agreement with other investors which give it control of the financial and operating policies of the entity it accounts for that entity as a subsidiary.

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

The Company has taken advantage of the exemption in section 408 of the Companies Act from disclosing its individual profit and loss account.

e. Foreign currency

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

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

- Assets and liabilities are translated at the closing rate at the balance sheet date;
- Income and expenses are translated at the average rate of exchange during the year; and
- All resulting exchange differences are recognised in the consolidated statement of other comprehensive income.

f. Insurance contracts

i. Classification of insurance and investment contracts

The Group issues insurance contracts that transfer significant insurance risk.

ii. Insurance contracts

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

Notes to the Consolidated Financial Statements continued

a. Premiums written

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

b. Unearned premiums

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

c. Acquisition costs

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

d. Claims incurred

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

e. Claims provisions and related reinsurance recoveries

A provision is made at the year-end for the estimated cost of claims incurred but not settled at the balance sheet date, including the cost of claims incurred but not reported to the Group. The estimated cost of claims includes expenses to be incurred in settling claims and deduction for expected value of salvage and other

recoveries. The Group takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established. Gross loss provisions are calculated gross of any reinsurance recoveries.

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

- changes in the Group's processes which might accelerate or slow down the development and/or recording of paid or incurred claims compared with the statistics from previous periods;

- changes in the legal environment;
- the effects of inflation;
- changes in the mix of business;
- the impact of large losses; and
- movements in industry benchmarks.

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

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

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

Credit and Surety, London Market and Other Business

The majority of this business is "short tail", that is, where claims are usually made during the term of the policy or shortly after the policy has expired. The cost of claims notified to the Group at the balance sheet date is estimated on a case-by-case basis to reflect the individual circumstances of each claim. The ultimate expected cost of claims is projected from this data by

reference to statistics which show how estimates of claims incurred in previous years have developed over time to reflect changes in the underlying estimates of the cost of notified claims and late notifications.

Professional Risks and Financial Lines

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

f. Reinsurance

Reinsurance to cover catastrophe exposed lines or lines with unbalanced line size to premium is purchased on a shared basis for the international insurance entities. Reinsurance premiums on excess of loss programmes are allocated across the International platforms based on gross premiums written.

Reinsurance recoveries are allocated based on the share of gross losses suffered by each carrier. Purchases of the shared reinsurance programme are advised to both Lloyd's and the PRA. Additionally, the Group purchases quota share reinsurance to balance line size and premium where it is prudent to do so.

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

g. Unexpired risks provision

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

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

h. Subrogation and salvage

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

g. Exceptional items

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

h. Taxation

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

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

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

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

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

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

This income represents the portion of the total net investment return that relates to assets which are held to cover the technical provision and which are transferred from the non-technical account in order to better reflect the balance of the technical account relating to insurance business.

j. Business combinations and goodwill

Business combinations are accounted for by applying the purchase method except for the group reconstruction (refer to Note 5) which applied the merger accounting method.

Group reconstructions - Merger accounting method

The merger accounting method is where the carrying values of assets and liabilities of the parties to the combination are not required to

Notes to the Consolidated Financial Statements continued

be adjusted to fair value, although appropriate adjustments are made to achieve uniformity of accounting policies in the combining entities. So, no new goodwill arises under merger accounting, and the acquired entity's assets and liabilities are brought in at the amounts at which the entity recorded them in its books before the combination (subject to adjustment for uniform accounting policies). The results and cash flows of all the combining entities are brought into the combined entity's consolidated financial statements from the beginning of the financial year in which the combination occurred, adjusted to achieve uniformity of accounting policies. That is to say, they include the subsidiary's results for the part of the period before the business combination, as well as the subsidiary's results for the part of the period after the business combination, as if the subsidiary had always been part of this sub-group. In addition, the comparative information is restated by including the results for all the combining entities for the previous reporting period and their balance sheet for the previous reporting date (as if the entities had been combined throughout the prior period), adjusted as necessary to achieve uniformity of accounting policies. However, the restatement to show the acquired subsidiary as if it had always been part of the new sub-group is only made as far back as the date when the subsidiary joined the wider group.

Business combinations - Purchase method

Under the purchase method the cost of a business combination is the fair value of the consideration given, liabilities incurred or assumed and of equity instruments issued plus the costs directly attributable to the business combination. Where control is achieved in stages the cost is the consideration at the date of each transaction.

Contingent consideration is initially recognised at estimated amount where the consideration is probable and can be measured reliably. Where (i) the contingent consideration is not considered probable or cannot be reliably measured but subsequently becomes probable and measurable or (ii)

contingent consideration previously measured is adjusted, the amounts are recognised as an adjustment to the cost of the business combination.

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

Goodwill

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

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

The Group's goodwill arose principally from the acquisition in 2018 of Qdos Holdings Limited and its subsidiary Qdos Broker and Underwriting Services Limited amounting to \$88.3m. In addition, goodwill of \$1.6m arose on the acquisition in 2006 of Manchester Dickson Holdings Limited and its subsidiaries (Note 15).

HCCII's goodwill arose from the purchase in 2006 of a book of Professional Indemnity business from a subsidiary of Manchester Dickson Holdings Limited and was capitalised at cost and is being amortised over its useful economic life on a straight-line basis over fifteen years (see Note 30).

k. Intangible assets

Intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated, using a straight-line method, to allocate the depreciable amount of the assets to their residual values over their estimated

useful lives. Amortisation and any impairment expense are charged to other charges in the non-technical account. Intangible assets' residual values and useful lives are reviewed, and adjusted, if appropriate, at the end of each reporting period. The effect of any change is accounted for prospectively.

The Group's intangible assets arose from the acquisition of Qdos Holdings Limited in 2018 and from the acquisition of Manchester Dickson Holdings Limited and its subsidiaries in 2006 and totalled \$36.2m and \$21.6m, respectively. The intangibles assets are amortised over their useful economic lives on a straight-line basis which has been estimated to be fifteen years.

l. Land and buildings held as investments

On a periodic basis, management consider the open market valuation of the Group's land and buildings held as an investment. Should the valuation fall below its cost, the deficit is written off as impairment through the profit and loss account.

Any aggregate surplus or deficit on revaluation of investment properties is taken to the non-technical account.

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

m. Tangible assets

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

Depreciation

Assets are depreciated from the time when they are available for use. Tangible assets are capitalised and depreciated

on a straight-line basis over their estimated useful lives as follows:

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

Derecognition

Tangible assets are derecognised on disposal or when no future economic benefits are expected. On disposal, the difference between the net disposal proceeds and the carrying amount is recognised in profit or loss and included in 'Other operating charges/income'.

n. Impairment of non-financial assets

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

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

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

If an impairment loss is subsequently reversed, the carrying amount of the asset (or asset's cash generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the revised carrying amount does not exceed the carrying amount

that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised in prior periods. A reversal of an impairment loss is recognised in the profit and loss account.

o. Investments in subsidiary undertakings – Company

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

p. Cash and cash equivalents

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

q. Provisions and contingencies

Provisions

Non-Insurance provisions are recognised when:

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

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase due to the passage of time is recognised as a finance cost.

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

occurrence of the event identified by legislation that triggers the obligation to pay the levy.

Contingencies

Contingent liabilities arise as a result of past events when:

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

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

r. Financial instruments

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

s. Financial assets

The Group classifies its financial assets into the following categories:

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

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

Financial assets designated at fair value through profit and loss at

Notes to the Consolidated Financial Statements continued

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

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

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

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

Deposits with credit institutions – Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Group intends to sell in the short term or that it has designated at fair value through profit or loss. When a financial liability is recognised initially it is measured at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial liability. Loans and receivables are subsequently measured at amortised cost using the effective interest

rate method. Receivables arising from insurance contracts are also classified in this category and are reviewed for impairment as part of the impairment review of loans and receivables. This basis of valuation is viewed by the directors as having prudent regard to the likely realisable value.

t. Impairment of financial assets

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

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

The Group first assesses whether objective evidence of impairment exists individually for financial assets

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

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

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

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

u. Financial liabilities

Creditors are financial liabilities and are recognised initially at fair value, net of

directly attributable transaction costs. Long-term creditors are subsequently stated at amortised cost, using the effective interest method.

v. Investment return

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

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

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

w. Share capital

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

x. Distributions to equity holders

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

y. Share premium

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

4. Critical accounting judgements and estimation uncertainty

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

Significant judgements in applying the accounting policies

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

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

The estimate of the ultimate liability arising from claims made under insurance contracts is the Group's most critical accounting estimate. The carrying amount of the claims outstanding, net of reinsurance, is \$585.8m (2018: \$527.4m). There are many sources of uncertainty that need to be considered in the estimate of the liability that the Group will ultimately pay for such claims. The level of provision has been set on the basis of the information that is currently available, including potential outstanding loss advices, experience of development of similar claims, historical experience, case law and legislative and judicial actions.

The most significant assumptions made relate to the level of future claims, the level of future claims settlements and the legal interpretation of insurance policies. Whilst the directors consider that the gross provision for claims and the related reinsurance recoveries are fairly stated on the basis of the information currently available to them, the ultimate liability will vary as a result of subsequent information and events and may result in significant adjustments to the amount provided. Adjustments to the amounts of provision are reflected in the financial

statements for the period in which the adjustments are made. The methods used and the estimates made are reviewed regularly. See Note 6.1 (iv) for loss development triangles.

ii. Fair value of financial instruments

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

If quoted prices are unavailable, observable prices for recent arm's length transactions for an identical asset are used to determine its fair value. The carrying value of these level 2 instruments is \$1,256.8m (2018: \$1,096.4m), see Note 6.5 for pricing basis. The Group uses its judgement to select a variety of methods and to make assumptions that are mainly based on market conditions existing at the end of each reporting period.

iii. Estimated impairment of goodwill and other intangible assets

In accordance with the accounting policy stated in Notes 3(j) and 3(k), goodwill and other intangibles assets are capitalised at cost and amortised over useful economic life on a straight-line basis. On an annual basis the directors consider whether there are any events or changes in circumstances which indicate that the carrying value of goodwill and intangibles may not be recoverable. The carrying value of goodwill and other intangible assets is \$81.2m (2018: \$87.1m) and \$34.7m (2018: \$38.7m), respectively. Any decrease in value determined would affect the Group's financial position.

iv. Pipeline premium

The Group makes an estimate of premiums written during the year that have not yet been notified by the financial year end ('pipeline premiums') based on prior year experience and current year business volumes. The pipeline premium is booked as written and an assessment is made of the related unearned premium provision and an estimate of claims incurred but not reported in respect of the earned element. The pipeline premium included within net written premium is \$152.4m (2018: \$86.2m).

Notes to the Consolidated Financial Statements continued

5. Prior year restatement

Group merger

On 17 July 2019 Tokio Marine Europe S.A. ('TME'), a subsidiary of the Group, merged with HCC Global Financial Products S.L. ('HCCG') (the 'Merger') a company within the TM Group and a Spanish agency underwriting financial lines business. The Group has used the merger accounting method to account for the Merger. The prior period comparative Group consolidated financial statements and accompanying relevant notes have been restated (with table headings shown as '2018 restated') as if HCCG did belong to the Group on 1 January 2018.

Prior to the Merger, the single shareholder of HCCG was HCC Global Financial Products, LLC ('HCCG US') domiciled in the United States.

In November 2018, HCCG changed its business purpose to becoming an exclusive insurance agency. TM Group's operations in Spain have changed substantially over the years since the acquisition of HCCG in 2002 and the need for a separate agency to underwrite financial lines business has decreased substantially and the financial lines subsegment is now fully integrated into the international segment. During 2019, the decision was taken to reorganize the legal entity structures in Spain in order to create operational efficiencies at Group level which ultimately resulted in the Merger.

In order to effect the Merger, the following steps were taken to transfer the ownership of HCCG:

- 1) TME issued 159,058 new shares to HCCG US in exchange for a non-controlling interest in HCCG. Following this share issue, HCCG US had a shareholding in TME of approximately 13.7%. However, there was no intention for TME to have more than one shareholder, therefore soon after the Merger, the following steps took place.
- 2) HCCG US contributes the shares it owns in TME to Tokio Marine HCC Insurance Holdings (International) Limited (parent of HCCII) in exchange for shares in Tokio Marine HCC Insurance Holdings (International) Limited;
- 3) Tokio Marine HCC Insurance Holdings (International) Limited then contributes the shares of TME it received in the share exchange with HCCG US to HCCII in exchange for one share in HCCII;
- 4) TME is then owned 100% by HCCII with HCCG US as a minority investor in Tokio Marine HCC Insurance Holdings (International) Limited.

The valuation of HCCG as of 31 December 2018 was performed in collaboration with an independent expert together with management reforecasts and was determined based on accepted valuation

approaches resulting in an equity value of the business of \$19.1m, equivalent to the share premium of HCCII on merger with the opposing accounting entry booked to merger reserve. The share issuance has been treated as a linked transaction with the merger and has been accounted for retrospectively.

The HCCG Merger had the following effects on the Group consolidated financial statements for the year ending 31 December 2018:

CONSOLIDATED PROFIT AND LOSS ACCOUNT	2018 published \$'000	2018 HCCG merger \$'000	Group adjustment \$'000	2018 restated \$'000
Technical account - general business				
Earned premiums, net of reinsurance	490,769	-	-	490,769
Earned investment income transferred from the non-technical account	25,655	(71)	-	25,584
Other technical income	5,260	-	-	5,260
Total technical income	521,684	(71)	-	521,613
Claims incurred, net of reinsurance	(212,340)	-	-	(212,340)
Net operating expenses	(196,549)	5,981	-	(190,568)
Total technical charges	(408,889)	5,981	-	(402,908)
Balance on the technical account for general business	112,795	5,910	-	118,705
Non-technical account				
Balance on the technical account for general business	112,795	5,910	-	118,705
Unrealised losses on financial investments	(18,888)	-	-	(18,888)
Bank interest receivable and similar income	364	1	-	365
	94,271	5,911	-	100,182
Net foreign exchange gains / (losses) on revaluation of monetary items	9,344	41	47	9,432
Other charges and other operating expenses	(13,158)	(615)	-	(13,773)
Profit on ordinary activities before tax	90,457	5,337	47	95,841
Tax on profit on ordinary activities	(16,237)	(1,488)	-	(17,725)
Profit for the financial year	74,220	3,849	47	78,116

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME	2018 published \$'000	2018 HCCG merger \$'000	Group adjustment \$'000	2018 restated \$'000
Profit for the financial year	74,220	3,849	47	78,116
Currency translation differences	(616)	-	-	(616)
Total consolidated comprehensive income	73,604	3,849	47	77,500

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CONSOLIDATED BALANCE SHEET	2018 published \$'000	2018 HCCG merger \$'000	Group adjustment \$'000	2018 restated \$'000
ASSETS				
Intangible assets	125,846	-	-	125,846
Investments	1,178,853	-	-	1,178,853
Reinsurers' share of technical provisions	309,994	-	-	309,994
Debtors	247,764	1,500	(117)	249,147
Other assets				
Tangible assets	2,992	362	-	3,354
Deposits from third parties	57,646	-	-	57,646
Cash at bank and in hand	85,786	14,775	-	100,561
	146,424	15,137	-	161,561
Prepayments and accrued income				
Accrued interest and rent	8,440	129	-	8,569
Deferred acquisition costs	80,798	2,589	(15,023)	68,364
	89,238	2,718	(15,023)	76,933
Total assets	2,098,119	19,355	(15,140)	2,102,334
LIABILITIES				
Capital and reserves				
Called up share capital	233,242	3	(3)	233,242
Share premium	-	-	19,115	19,115
Merger reserve	-	-	(19,115)	(19,115)
Other reserve	(1,929)	-	-	(1,929)
Profit and loss account	523,675	519	3	524,197
Total shareholder's equity	754,988	522	-	755,510
Technical provisions	1,102,704	-	-	1,102,704
Creditors - amounts due within one year				
Creditors arising out of direct insurance operations	13,320	-	-	13,320
Creditors arising out of reinsurance operations	76,833	-	-	76,833
Other creditors including taxation and social security	41,296	1,410	(117)	42,589
Deposits from third parties	57,721	-	-	57,721
	189,170	1,410	(117)	190,463
Creditors - amounts due after more than one year				
Deferred consideration	9,799	-	-	9,799
Accruals and deferred income	41,458	17,423	(15,023)	43,858
Total liabilities	2,098,119	19,355	(15,140)	2,102,334

6. Risk management

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

6.1 Insurance risk

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

i. Underwriting risk

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

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

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

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

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

These authority limits are enforced through a comprehensive sign-off process for underwriting transactions including an escalation process for all risks exceeding individual underwriters' authority limits. Exception reports are also run regularly to monitor compliance and a rigorous peer and external review process are in place. Rate monitoring, including risk adjusted rate change and adequacy against benchmark rates, are recorded and reported.

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

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

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

To address this, the Group sets out its risk appetite (expressed as Probable Maximum Loss estimates ('PML') and modelled return period events) in certain territories as well as a range of events such as natural catastrophes

and specific scenarios which may result in large industry losses. The aggregate position and modelled loss scenarios are monitored at the time of underwriting a risk and reports are regularly produced to highlight the key aggregations to which the Group is exposed.

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

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

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

ii. Reinsurance risk

Reinsurance risk arises where reinsurance contracts:

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

Failure of a reinsurer to pay a valid claim is considered a credit risk which is detailed in the credit risk section. See Note 6.5.

The purchase of reinsurance is a key tool utilised to manage underwriting risk. The Group's reinsurance programme is comprised predominantly of excess of loss cover which may be over placed to protect against reinstatement costs. Prior to placement of the programme, it

Notes to the Consolidated Financial Statements continued

6.2 Strategic, regulatory and group risk

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

i. Strategic risk

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

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

ii. Regulatory risk

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

Capital management

The Group estimates its economic capital requirements using an internal model (the Economic Capital Model ('ECM')) which, the directors believe, is the most appropriate tool to determine the Group's medium-term capital needs. Additionally, the Standard Formula Solvency Capital

Requirement ('SF SCR') is used for the measure for required regulatory capital for the Company (HCC solo). The Board has reviewed the SF SCR against the ECM and has concluded that the SF SCR is appropriate. The SF SCR is measured against the Company's Solvency II Available Assets to monitor its Solvency. Given the inherent volatility of the SF SCR and Solvency II Available Assets, the Company carried an amount in excess of the regulatory minimum. At 31 December 2019 and 2018 the Company Solvency II Available Assets are well in excess of the regulatory minimum and the SF SCR.

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

Group risk

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

a. Contagion

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

b. Reputation

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

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

6.3 Market risk

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

The investment strategy is developed by reference to an investment risk budget, which is reviewed annually by the directors as part of the overall risk budgeting framework of the business. In 2019, the investment risk budget was confirmed that the amount of an investment loss, at the 1-in-200 Tail Value at Risk (TVaR) level, would be no more than the Group's excess capital (above the regulatory minimum). This was the result of a complete investment strategy review carried out by the Group's Investment Managers, New England Asset Management Ltd as part of the Investment Committee's annual review of its risk appetite. The investment risk appetite for 2019 is consistent with 2018.

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

ESG outputs are regularly validated

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

i. Foreign exchange risk

The Group's functional and reporting currency is the US Dollar and when possible, the Group generally hedges currency monetary liabilities (excluding unearned premium and deferred

acquisition costs) with assets in those same currencies. Excess assets are generally held in US Dollars. The effect of this on foreign exchange risk is that the Group is mainly exposed to revaluation FX gains/losses of unmatched non-US Dollar denominated positions.

The Group operates in six main currencies: US Dollars; Sterling; Canadian Dollars; Swiss Francs;

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

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

FX risk exposure 31 December 2018 restated	AUD \$ \$'000	CAD \$ \$'000	CHF Fr \$'000	EUR € \$'000	GBP £ \$'000	Subtotal \$'000	USD \$ \$'000	Total \$'000
Total assets	17,109	4,341	30,039	412,656	530,538	994,683	1,107,651	2,102,334
Total liabilities	(24,332)	(140)	(27,698)	(436,756)	(598,584)	(1,087,510)	(259,314)	(1,346,824)
Net assets	(7,223)	4,201	2,341	(24,100)	(68,046)	(92,827)	848,337	755,510
Net profit/(loss)	7,246	(929)	(3,285)	26,803	6,272	36,107	42,009	78,116

Sensitivity analysis

Fluctuations in the Group's operating currencies against US Dollars, with everything else staying the same, would result in a change to net profit after tax and net asset value. The table below gives an indication of the impact on

net profit and net assets of a percentage change in the relative strength of the US Dollar against the value of the Australian Dollar, Canadian Dollar, Swiss Franc, the Euro, and Sterling, simultaneously.

FX risk exposure – sensitivity Change in exchange rate of Canadian Dollar, Australian Dollar, Swiss Franc, Euro and Sterling, relative to US Dollar	Impact on profit after tax		Impact on net assets	
	2019	2018 restated	2019	2018 restated
	\$'000	\$'000	\$'000	\$'000
US Dollar weakens 30% against other currencies	6,153	10,832	(9,167)	(27,848)
US Dollar weakens 20% against other currencies	4,102	7,221	(6,111)	(18,565)
US Dollar weakens 10% against other currencies	2,051	3,611	(3,056)	(9,283)
US Dollar strengthens 10% against other currencies	(2,051)	(3,611)	3,056	9,283
US Dollar strengthens 20% against other currencies	(4,102)	(7,221)	6,111	18,565
US Dollar strengthens 30% against other currencies	(6,153)	(10,832)	9,167	27,848

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ii. Interest rate risk

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

The Group manages interest rate risk by investing primarily in short duration financial assets along with cash. The

Investment Committee monitors the duration of these assets on a regular basis.

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

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

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

Investments and cash – duration 31 December 2018 restated	<1 yr \$'000	1-2 yrs \$'000	2-3 yrs \$'000	3-4 yrs \$'000	4-5 yrs \$'000	5-10 yrs \$'000	>10 yrs \$'000	N/A \$'000	Total \$'000
Variable yield securities	41,251	-	-	-	-	-	-	-	41,251
Debt securities	165,972	98,307	175,242	244,480	161,383	178,818	73,353	-	1,097,555
Other investments	-	-	-	-	-	-	-	39,808	39,808
Total other financial investments	207,223	98,307	175,242	244,480	161,383	178,818	73,353	39,808	1,178,614
Deposits from third parties	57,646	-	-	-	-	-	-	-	57,646
Cash at bank	100,561	-	-	-	-	-	-	-	100,561
Total	365,430	98,307	175,242	244,480	161,383	178,818	73,353	39,808	1,336,821

Sensitivity analysis

Changes in interest yields, with all other variables constant, would result in changes in the market value of debt

securities as well as subsequent interest receipts and payments. This would affect reported profits after tax and net assets as indicated in the table below:

Investments and cash – interest rate sensitivity Shift in yield (basis points)	Impact on profit after tax		Impact on net assets	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
100 basis point increase	(61,009)	(35,177)	(61,009)	(35,177)
50 basis point increase	(30,461)	(17,588)	(30,461)	(17,588)
50 basis point decrease	29,507	17,323	29,507	17,323
100 basis point decrease	58,084	34,646	58,084	34,646

6.4 Operational risk

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

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

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

Addressing conduct risk has always been treated as a priority irrespective of the regulatory emphasis on the selling of financial products, including insurance products, to consumers. The Group's

primary objective is that all policyholders should receive fair treatment throughout the product lifecycle, which requires the effective management of conduct risk. However, conduct risk is not limited to the fair treatment of customers and the Group's Conduct Risk Policy broadly defines conduct risk as "...the risk that detriment is caused to the Group, our customers, clients or counterparties because of the inappropriate execution of our business activities."

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

6.5 Credit risk

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

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

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

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

An approval system exists for all new brokers and coverholders and their performance is carefully monitored.

Notes to the Consolidated Financial Statements continued

Regular exception reports highlight trading with non-approved brokers, and the Group's credit control function frequently assesses the ageing and collectability of debtor balances. Any large aged items are prioritised and where collection is outsourced incentives are in place to support these priorities.

The Investment Committee has established comprehensive guidelines for the Group's Investment Managers

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

The Group has developed processes to formally examine all reinsurers before entering into new business arrangements. New reinsurers

are approved by the reinsurance approval group, which also reviews arrangements with all existing reinsurers at least annually. Vulnerable or slow-paying reinsurers are examined more frequently. To assist in the understanding of credit risks, A.M. Best, Moody's and Standard & Poor's ('S&P') ratings are used. The Group's concentrations of credit risk have been categorised by these ratings in the following table.

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

Investments, reinsurance assets and cash – credit ratings 31 December 2018 restated	AAA \$'000	AA \$'000	A \$'000	BBB \$'000	BB \$'000	Not rated \$'000	Total \$'000
Variable yield securities	41,251	-	-	-	-	-	41,251
Debt securities	75,477	551,530	313,810	153,176	3,562	-	1,097,555
Other investments	-	-	-	-	-	39,808	39,808
Total other financial investments	116,728	551,530	313,810	153,176	3,562	39,808	1,178,614
Reinsurers' share of technical provisions	-	95,483	211,560	1,396	1,555	-	309,994
Debtors arising out of reinsurance operations	-	26,473	57,312	91	697	-	84,573
Cash at bank	100,561	-	-	-	-	-	100,561
Total	217,289	673,486	582,682	154,663	5,814	39,808	1,673,742

The Group's largest counterparty exposure is \$213.2m of US Government securities (2018: \$276.2m).

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

Financial assets – ageing 31 December 2019	Not yet due \$'000	Up to 3 months past due \$'000	3 to 6 months past due \$'000	7 to 12 months past due \$'000	> 1 year past due \$'000	Total \$'000
Reinsurers share of claims outstanding	466,344	-	-	-	-	466,344
Insurance debtors	141,084	39,075	23,311	9,402	158	213,030
Reinsurance debtors	150,720	7,289	5,274	2,270	536	166,089
Other debtors	55,135	-	-	-	-	55,135
Total	813,283	46,364	28,585	11,672	694	900,598

Financial assets – ageing 31 December 2018 restated	Not yet due \$'000	Up to 3 months past due \$'000	3 to 6 months past due \$'000	7 to 12 months past due \$'000	> 1 year past due \$'000	Total \$'000
Reinsurers share of claims outstanding	240,945	-	-	-	-	240,945
Insurance debtors	115,177	11,288	4,175	-	-	130,640
Reinsurance debtors	52,791	15,499	9,992	6,291	-	84,573
Other debtors	33,934	-	-	-	-	33,934
Total	442,847	26,787	14,167	6,291	-	490,092

Fair value estimation

The following table presents the Group's financial investments measured at fair value at 31 December 2019 and 31 December 2018 categorised into levels 1, 2 and 3, reflecting the categorization criteria specified in FRS 102 (s34.22). No liabilities were measured at fair value at 31 December 2019 or 31 December 2018.

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

Financial investments – pricing basis	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
31 December 2018				
Variable yield securities	-	41,251	-	41,251
Debt securities	1,189	1,096,366	-	1,097,555
Other investments	-	-	39,808	39,808
Total other financial investments	1,189	1,137,617	39,808	1,178,614

Notes to the Consolidated Financial Statements continued

FRS 102 defines the disclosure of investments levels as follows:

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

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

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

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

measures fair value for its structured securities using observable market data in cash flow models.

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

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

No markets for the Group's investments were judged to be inactive at period end. Based on these procedures, the Group did not adjust the prices or quotes provided by its independent pricing services, third party investment managers as of 31 December 2019 or at 31 December 2018.

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

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

6.6 Liquidity risk

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

The Group's approach is to manage its liquidity position so that it can reasonably survive a significant individual or market loss event (details of the Group's management of its exposure to loss scenarios are provided in Note 6.1.(i)). This means that the Group maintains sufficient liquid assets, or assets that can be readily converted

into liquid assets at short notice, to meet expected cash flow requirements. The Group can also draw on group funds to bridge short-term cash flow requirements. The following table is an analysis of the net contractual cash flows based on all the liabilities held at 31 December 2019 and 2018:

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

Financial liabilities – projected cash flows 31 December 2018 restated	Within 1yr \$'000	1-3 years \$'000	3-5 years \$'000	>5 years \$'000	Total \$'000
Net claims outstanding	152,216	185,301	98,605	91,324	527,446
Creditors from direct insurance operations	13,320	-	-	-	13,320
Creditors from reinsurance operations	76,833	-	-	-	76,833
Other creditors	42,589	-	-	-	42,589
Total	284,958	185,301	98,605	91,324	660,188

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

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

Investments and cash – maturity 31 December 2018 restated	Within 1yr \$'000	1-3 years \$'000	3-5 years \$'000	>5 years \$'000	N/A \$'000	Total \$'000
Variable yield securities	41,251	-	-	-	-	41,251
Debt securities	87,900	233,823	188,669	587,163	-	1,097,555
Other investments	-	-	-	-	39,808	39,808
Total other financial investments	129,151	233,823	188,669	587,163	39,808	1,178,614
Cash at bank	100,561	-	-	-	-	100,561
Total	229,712	233,823	188,669	587,163	39,808	1,279,175

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7. Part VII transfers from affiliated companies:

TMKI underwent the legal process (Part VII transfer) to transfer TMKI insurance and reinsurance contracts underwritten historically by their European branches together with the branch employees to TME. The transfers were effected on 1 January 2019 by TME through the issuance of one share to TMKI. The process followed the Part VII transfer

protocol in the UK as approved by the Luxembourg regulator (Commissariat aux Assurances), in exchange for shares through two contribution in kind ('CIK') transactions in accordance with Luxembourg company law.

Subsequent to the Part VII transfers, quota share reinsurance arrangements were applied to ceded balances back to the transferring companies as shown in the tables below. The tables below

show the obligations transferred to TME based on the book values in TMKI as at 31 December 2018. Subsequently, assets were transferred into TME equal to the net obligations net of the retrocessions.

The impact of the net assets transferred on the balance sheet and profit and loss account is shown in the tables below:

Balance sheet	Part VII transfer TMKI \$'m	Retrocessions TMKI \$'m	Net \$'m
Provision for unearned premium - gross	(30.1)	-	(30.1)
Provision for unearned premium - reinsurer share	14.3	15.8	30.1
Claims outstanding - gross	(156.8)	-	(156.8)
Claims outstanding - reinsurer share	57.0	97.3	154.3
Deferred acquisition costs - gross	4.6	-	4.6
Deferred acquisition costs - reinsurer share	(3.9)	(7.7)	(11.6)
Net technical provisions	(114.9)	105.4	(9.5)
Debtors	14.3	-	14.3
Creditors	(5.3)	-	(5.3)
Other net assets	9.0	-	9.0
Total	(105.9)	105.4	(0.5)

Profit and loss account	TMKI \$'m	TMKI \$'m	Net \$'m
Gross premiums written	30.1	-	30.1
Change in the provision for unearned premium - gross	(30.1)	-	(30.1)
Outward reinsurance premium	(14.3)	(15.8)	(30.1)
Change in the provision for unearned premium - reinsurer share	14.3	15.8	30.1
Claims paid - gross amount	156.8	-	156.8
Change in the provision for claims outstanding - gross	(156.8)	-	(156.8)
Claims paid - reinsurer share	(57.0)	(97.3)	(154.3)
Change in the provision for claims outstanding - reinsurer share	57.0	97.3	154.3
Acquisition costs written - gross	(4.6)	-	(4.6)
Change in deferred acquisition costs - gross	4.6	-	4.6
Reinsurance commissions written	3.9	7.7	11.6
Change in deferred acquisition costs - reinsurer share	(3.9)	(7.7)	(11.6)
Total	-	-	-

8. Segmental information

(a) Underwriting result by class of business

2019	Gross premiums written \$'000	Gross premiums earned \$'000	Gross claims incurred \$'000	Gross operating expenses \$'000	Reinsurance balance \$'000	Net underwriting result \$'000
Direct insurance						
Accident and health	66,807	58,472	(26,245)	(22,679)	(7,158)	2,390
Credit, political risk and suretyship	188,124	181,220	(141,233)	(60,193)	24,286	4,080
Travel	(4)	250	(777)	(87)	(228)	(842)
Marine, aviation and transport	117,094	104,880	(60,646)	(28,862)	(4,737)	10,635
Miscellaneous	71,112	60,394	(32,045)	(21,269)	(2,052)	5,028
Third party liability	323,792	307,788	(183,949)	(95,549)	(9,670)	18,620
Total direct	766,925	713,004	(444,895)	(228,639)	441	39,911
Reinsurance acceptances	251,737	226,547	(97,896)	(73,720)	(4,884)	50,047
Total	1,018,662	939,551	(542,791)	(302,359)	(4,443)	89,958
Investment return						28,126
Other technical income						5,994
Technical account						124,078

2018 restated	Gross premiums written \$'000	Gross premiums earned \$'000	Gross claims incurred \$'000	Gross operating expenses \$'000	Reinsurance balance \$'000	Net underwriting result \$'000
Direct insurance						
Accident and health	14,365	14,041	(7,516)	(5,662)	(2,308)	(1,445)
Credit, political risk and suretyship	174,158	173,731	(66,946)	(58,789)	(5,692)	42,304
Travel	1,005	4,519	(2,945)	(2,003)	(229)	(658)
Marine, aviation and transport	20,079	17,879	(4,886)	(5,810)	(6,419)	764
Miscellaneous	8,819	7,742	14,295	(4,102)	(11,984)	5,951
Third party liability	272,485	240,051	(134,961)	(85,909)	749	19,930
Total direct	490,911	457,963	(202,959)	(162,275)	(25,883)	66,846
Reinsurance acceptances	166,558	157,195	(53,010)	(48,931)	(34,239)	21,015
Total	657,469	615,158	(255,969)	(211,206)	(60,122)	87,861
Investment return						25,584
Other technical income						5,260
Technical account						118,705

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

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(b) Geographical location of underwriting operations

	Gross premiums written		Profit/(loss) before taxation		Net assets	
	2019	2018	2019	2018	2019	2018
	\$'000	\$'000	\$'000	restated \$'000	\$'000	restated \$'000
United Kingdom	664,896	494,884	133,389	97,850	713,836	633,492
Rest of Europe	353,766	162,585	7,940	(2,009)	147,470	122,018
	1,018,662	657,469	141,329	95,841	861,306	755,510

(c) Geographical location of gross premiums written by destination

	2019 \$'000	2018 \$'000
United Kingdom	405,620	296,075
Rest of Europe	404,136	219,217
Rest of the World	208,906	142,177
	1,018,662	657,469

9. Investment return

	2019 \$'000	2018 restated \$'000
Investment income:		
Income from other financial investments	29,132	27,436
Investment income	574	(370)
Investment management fees and charges	(1,580)	(1,482)
Allocated investment return transferred to the general business technical account	28,126	25,584
Unrealised gains on financial investments excluding FX from revaluation	41,693	-
Unrealised losses on financial investments excluding FX from revaluation	-	(18,888)
Bank interest receivable and similar income	1,844	365
Total Investment Return	71,663	7,061

The Group recorded \$2.5m net foreign exchange gains in revaluation of the non-US Dollar investment portfolio (2018 restated: \$12.0m losses). Additionally, foreign exchange losses on revaluation of other non-USD Dollar monetary assets and liabilities totalled \$10.6m (2018 restated: \$21.4m gains).

10. Net operating expenses

	2019 \$'000	2018 restated \$'000
Commission costs	171,727	117,669
Change in deferred acquisition costs (Note 22)	(10,093)	(6,261)
Reinsurance commissions and profit participation	(93,669)	(20,638)
Earned net acquisition costs	67,965	90,770
Administrative expenses	140,725	99,798
	208,690	190,568

Total commission written during the year in respect of direct insurance was \$136.4m (2018 restated: \$93.8m).

Staff costs

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

Group	2019 \$'000	2018 restated \$'000
Wages and salaries	54,832	34,868
Social security costs	8,673	4,684
Other pension costs	3,096	2,038
	66,601	41,590

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

	2019 Number	2018 restated Number
Underwriting	303	226
Claims	54	16
Administration and finance	174	79
	531	321

Directors' emoluments

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

	2019 \$'000	2018 \$'000
Aggregate emoluments	6,113	4,598
Pension contributions	38	12
	6,151	4,610

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

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Highest paid director	2019 \$'000	2018 \$'000
Aggregate emoluments	2,527	1,555
Pension contributions	-	-
	2,527	1,555

11. Auditors' remuneration

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

	2019 \$'000	2018 restated \$'000
Fees payable for auditing of the accounts of the Group and its subsidiaries	1,113	588
All audit-related assurance services	249	491
All other non-audit services	-	-
	1,362	1,079

The Group received services indirectly from the auditor of \$93,032 (2018: nil). The Company received services indirectly from the auditor of \$51,167 (2018: nil).

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

12. Other charges and other operating expenses

	2019 \$'000	2018 restated \$'000
Brexit transition costs	3,524	4,125
Corporate oversight costs	3,292	3,531
Service awards	1,145	2,591
Amortisation of goodwill (Note 15)	6,224	1,467
Amortisation of intangibles (Note 15)	4,044	2,059
	18,229	13,773

Brexit transition costs of \$3.5m (2018: \$4.1m) were incurred mainly as a result of the continued set-up of the company and office in Luxembourg and also IT system and other consultancy costs. Service awards are mainly payments made to key staff following the acquisition of Houston Casualty by Tokio Marine in 2015 as well as other accrued amounts under a long-term incentive scheme.

13. Other technical income

	2019 \$'000	2018 \$'000
Credit limit notification services fee income	4,375	3,866
Qdos commission and fee income	1,272	1,394
TME fee income	347	-
Other technical income	5,994	5,260

Other technical income comprises \$4.4m (2018: \$3.9m) for credit limit notification services conducted for Credit policyholders of HCCII by HCC Credit Services Limited. In addition, commission and fee income from Qdos of \$1.3m (2018: \$1.4m) and fee income from TME of \$0.3m (2018: nil) have been included.

14. Tax on profit on ordinary activities

	2019 \$'000	2018 restated \$'000
UK Corporation tax at 19.00% (2018: 19.00%)		
Current tax on income for the year	37,998	21,139
Tax in respect of prior years	692	(3,521)
Current tax charge for the year	38,690	17,618
Deferred tax - origination and reversal of timing differences	(2,667)	107
Tax on profit on ordinary activities	36,023	17,725

The tax assessed for the year is higher (2018: lower) than the standard rate of corporation tax in the UK. The differences are explained below:

	2019 \$'000	2018 restated \$'000
Profit on ordinary activities before taxation	141,329	95,841
Tax on profit on ordinary activities at standard rate of 19.00% (2018: 19.00%)	26,853	18,210
Expenses not deductible for tax purposes	422	298
Amortisation of goodwill and intangibles	1,183	670
Foreign tax	(1,319)	1,572
Effect of foreign exchange	797	(456)
Tax in respect of prior years	692	(3,521)
Movement in unrecognised deferred tax asset	7,315	-
Other	80	952
Tax on profit on ordinary activities	36,023	17,725

Notes to the Consolidated Financial Statements continued

15. Goodwill and other intangible assets

	Goodwill \$'000	Other intangible assets \$'000	Total \$'000
Cost			
At 1 January 2019	89,668	57,799	147,467
Qdos acquisition adjustment	326	-	326
At 31 December 2019	89,994	57,799	147,793
Accumulated amortisation			
At 1 January 2019	2,566	19,055	21,621
Charge for the year	6,224	4,044	10,268
At 31 December 2019	8,790	23,099	31,889
Net			
At 31 December 2019	81,204	34,700	115,904
At 31 December 2018	87,102	38,744	125,846

The Group has recognised goodwill and intangibles created on the acquisition of the Qdos group of companies in 2018 and Manchester Dickson Holdings Limited group of companies in 2006. The carrying values at the end of the year were \$81.0m (2018: \$86.6m) and \$33.2m (2018: \$35.7m) for the Qdos group of companies and \$0.2m (2018: \$0.5m) and \$1.5m (2018: \$3.1m) for the Manchester Dickson Holdings Limited group of companies respectively. The amount of goodwill arising from the acquisition of the Qdos group of companies was adjusted by \$0.3m during 2019, reflecting an adjustment to the purchase price in February 2019.

16. Land and buildings – Group and Company

	2019 \$'000	2018 \$'000
Leasehold land and buildings	239	18,239

The investment property, which consists of long leasehold industrial units, was reviewed at 31 December 2019 on an open market basis, using reasonable judgements and contemporary evidence available. The valuation of the property in these statements remains materially correct and no impairment is required. See Note 3(l).

17. Other financial investments

	Fair value		Book cost	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Variable yield securities and units in unit trusts	39,652	41,251	39,652	41,251
Debt securities and other fixed-income securities	1,256,752	1,097,555	1,235,269	1,124,815
Other investments	47,129	39,808	44,313	39,736
	1,343,533	1,178,614	1,319,234	1,205,802

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

18. Other debtors

	2019 \$'000	2018 restated \$'000
Claims funds	5,588	16,216
Other debtors	5,805	402
Amounts owed by group companies	43,742	17,316
	55,135	33,934

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

19. Tangible assets

	Leasehold improvements \$'000	Owner occupied Land and Buildings \$'000	Computer equipment \$'000	Fixtures, fittings and office equipment \$'000	Total \$'000
Book cost					
At 1 January 2019 restated	1,806	3,848	273	2,737	8,664
Additions	80	-	59	396	535
At 31 December 2019	1,886	3,848	332	3,133	9,199
Accumulated depreciation					
At 1 January 2019 restated	1,698	1,050	273	2,289	5,310
Charge for the year	45	87	16	236	384
At 31 December 2019	1,743	1,137	289	2,525	5,694
Net book value					
31 December 2019	143	2,711	43	608	3,505
31 December 2018 restated	108	2,798	-	448	3,354

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

20. Called up share capital – Group and Company

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

The £1 ordinary shares (2018: £1 ordinary shares) are translated to US dollars at the rates of exchange ruling on the dates the shares were issued. One ordinary share of \$1 was issued during 2019 following the Group merger outlined in Note 5 and this share issuance has been accounted for retrospectively. Dividends declared as payable in 2019 totalled \$nil (2018: \$nil).

Notes to the Consolidated Financial Statements continued

21. Other creditors including taxation and social security

	2019	2018
	\$'000	restated \$'000
Corporation tax	16,420	5,017
Net deferred tax liability	13,189	15,988
Other creditors	2,409	725
Deferred consideration	10,476	5,753
Amounts owed to affiliate companies	6,439	15,106
	48,933	42,589

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

Net deferred tax liability	2019	2018
	\$'000	restated \$'000
At 1 January – net deferred tax liability	15,988	10,590
Changes in accelerated capital allowances	8	(140)
Intangible asset	(648)	5,299
Deferred taxation of release of Equalisation provision	(3,047)	(3,047)
Technical reserves	1,340	2,555
Short-term timing differences	(452)	731
At 31 December – net deferred tax liability	13,189	15,988

The net deferred tax liability consists of the following amounts:

Net deferred tax liability	2019	2018
	\$'000	restated \$'000
Accelerated capital allowances	264	256
Intangible assets	4,651	5,299
Technical reserves	2,130	790
Short-term timing differences	611	1,063
Deferred taxation for release of Equalisation provision	5,533	8,580
Net deferred tax liability	13,189	15,988

In the Spring Budget 2020, the Government announced that from 1 April 2020 the corporation tax rate would remain at 19% (rather than reducing to 17%, as previously enacted). This new law was substantively enacted on 17 March 2020. As the proposal to keep the rate at 19% had not been substantively enacted at the balance sheet date, its effects are not included in these financial statements. However, it is likely that the overall effect of the change, had it been substantively enacted by the balance sheet date, would be to increase the deferred tax liability by \$0.7m.

A potential deferred tax asset of \$17.7m (2018: \$10.4m) in respect of certain unutilised tax losses has not been recognised as there is insufficient evidence that it will be recoverable. This asset would be recovered should sufficient taxable profits be generated in future which would be eligible for relief against the unutilised tax losses.

22. Technical provisions – Group

Gross of reinsurance	Provisions for unearned premiums	Claims outstanding (1)	Deferred acquisition costs (2)	Net technical liabilities
	\$'000	\$'000	\$'000	\$'000
At 1 January 2019 restated	334,313	768,391	68,364	1,034,340
Movement in provision	79,111	174,092	10,093	243,110
Exchange adjustments	10,588	7,287	(940)	18,815
Part VII transfer at 1 January 2019	-	156,795	-	156,795
At 31 December 2019	424,012	1,106,565	77,517	1,453,060
Reinsurance				
At 1 January 2019	69,049	240,945	17,177	292,817
Movement in provision	45,946	181,271	16,428	210,789
Exchange adjustments	(163)	(12,902)	(1,248)	(11,817)
Part VII transfer at 1 January 2019	-	57,030	-	57,030
At 31 December 2019	114,832	466,344	32,357	548,819
Net				
At 31 December 2019	309,180	640,221	45,160	904,241
At 31 December 2018 restated	265,264	527,446	51,187	741,523

(1) Claims outstanding includes claims incurred but not reported (IBNR) reserves of \$516.2m gross of reinsurance and \$187.3m reinsurer's share of IBNR reserves (2018: \$376.4m gross; \$105.0m reinsurer's share).

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

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

	2019	2018
	\$'000	restated \$'000
Profit before tax	141,329	95,841
Adjustments for:		
Interest received	(30,976)	(27,801)
Amortisation of goodwill	6,224	1,467
Amortisation of other intangibles	4,044	2,059
Depreciation of tangible fixed assets	384	227
Increase in debtors, prepayments and accrued income	(186,340)	(59,669)
Increase in creditors, accruals and deferred income	136,420	43,508
Increase in net technical provisions	162,718	48,845
Decrease / (increase) in deposits with ceding undertakings	4,179	(1,368)
Realised and unrealised investments (gains) / losses	(42,267)	19,258
Net proceeds on purchases and sales of financial investments	(122,652)	31,885
Other non-cash movements including foreign exchange gains and losses	490	(616)
Net cash inflow from operating activities	73,553	153,636

Notes to the Consolidated Financial Statements continued

24. Commitments

(a) Capital commitments

The Group and Company have commitments to subscribe into a private equity fund investment vehicle totalling \$100m (2018: \$100m). At the date of the balance sheet the Group and Company had invested \$47.1m.

(b) Operating lease commitments

The Group leases various offices, as a lessee, under operating lease agreements. The Group is required to give notice for the termination of these agreements. The lease expenditure charged to the consolidated profit and loss account during the year is \$3.6m (2018 restated: \$2.0m).

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

	2019 \$'000	2018 restated \$'000
Not later than 1 year	5,372	3,197
Later than one year and not later than 5 years	21,032	10,363
Later than 5 years	7,388	3,140
	33,792	16,700

25. Related party transactions

Parental Guarantee

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

Shared Reinsurance Programme

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

Related party	Nature of Contract	2019 Closing balance \$'000	2018 Closing balance \$'000
Houston Casualty Co London	Excess of loss and Quota share	7,261	14,739
Syndicate 4141	Excess of loss and Quota share	23,798	1,551
		31,059	16,290

Intra-group reinsurance contracts

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

Related party – inward reinsurance	Nature of Contract	2019 Gross premium \$'000	2019 Closing balance \$'000	2018 Gross premium \$'000	2018 Closing balance \$'000
Tokio Marine Insurance Singapore	Inwards reinsurance	2,903	1,957	4,036	609
Tokio Marine & Nichido Fire Insurance Co. Ltd.	Inwards reinsurance	366	3,003	2,282	2,317
Syndicate 4141	Inwards reinsurance	-	-	862	-
		3,269	4,960	7,180	2,926

Related party – outward reinsurance	Nature of Contract	2019 RI Premium \$'000	2019 Closing balance \$'000	2018 RI Premium \$'000	2018 Closing balance \$'000
Tokio Marine & Nichido Fire Insurance Co. Ltd.	Outwards reinsurance	94,044	61,231	619	(393)
Tokio Millennium Re AG	Outwards reinsurance	-	-	3,630	(252)
Lloyd's Syndicate 510	Outwards reinsurance	16,002	11,274	1,391	(1,059)
Houston Casualty Company	Outwards reinsurance	-	284	1,481	114
Tokio Millennium Re UK	Outwards reinsurance	-	-	190	(165)
Tokio Marine Kiln Insurance Limited	Outwards reinsurance	61,054	4,703	172	(30)
		171,100	77,492	7,483	(1,785)

Agency commission

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

Related party	Nature of Contract	2019 Commission \$'000	2019 Closing balance \$'000	2018 restated Commission \$'000	2018 restated Closing balance \$'000
HCC Specialty Ltd	Underwriting agency	4,153	(3,420)	2,936	(2,155)

Group services administration

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

Related party	Nature of Contract	2019 Expenses incurred \$'000	2019 Closing balance \$'000	2018 Expenses Incurred \$'000	2018 Closing balance \$'000
HCC Service Company Inc. (UK branch)	Provision of central administrative services	53,137	2,366	46,011	(12,762)

Notes to the Consolidated Financial Statements continued

Other related party accounts

The following table shows the balances outstanding at the year end between the Group and fellow affiliates of the TM Group. The balances have arisen in the normal course of business.

Related party	2019 \$'000	2018 \$'000
HCC Service Company, Inc.	(1,247)	(63)
U.S. Specialty Insurance Co	53	53
NameCo (No. 808) Ltd.	120	1,174
HCC Underwriting Agency Ltd.	(9)	-
Radius Underwriting Ltd	-	(3)
Rattner Mackenzie Limited	(1,752)	(1,753)
HCC Re Agency	127	113
Total	(2,708)	(479)

Key management compensation

The key management of the Group are considered to be the statutory directors of the Company. Note 10, Net Operating Expenses, gives details of their compensation as directors of the Company.

26. Ultimate parent company and controlling party

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

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

27. Post balance sheet events

GCube Acquisition

The Group announced in March 2020 that it has signed an agreement to acquire GCube, the managing general agent which is one of the largest global underwriters of renewable energy, covering wind, solar, bio, hydro, wave and tidal projects. The acquisition demonstrates the Group's commitment to the renewable energy insurance market and its desire to actively address the issues around sustainability, helping us move towards a safe, secure and sustainable future. The acquisition is expected to complete during Q2 2020, and the Group has sufficient capital resources to fund this acquisition. The Group believes that this strategic acquisition complements the business currently written by the Group and provides further opportunities for growth and diversification.

Covid-19

The outbreak of the coronavirus pandemic (Covid-19) is unprecedented and will have a material impact on the global economy and the insurance market. Given this, management and the Board have been assessing and will continue to assess the impact of Covid-19 on the Group's current and future trading outlook and its ability to continue as a going concern. This includes the effect on underwriting, operational and liquidity risks and the Group's solvency position.

The Group's business portfolio is diversified and those businesses which have a direct exposure to losses associated with Covid-19 have comprehensive reinsurance with high quality reinsurers with whom it has had long trading relationships. Additionally, the IT infrastructure of the Group enables remote working so that the highly skilled and dedicated employees can continue normal operational processes without substantial disruption. This enables the Group to continue to service its policyholders. The investment portfolio is conservatively invested, and the Group has substantial liquidity. Although it is early to conclude a comprehensive assessment as to the impact on the Group, the Board has concluded that this post balance sheet event is a non-adjusting event and it will not have an impact on the Group's ability to continue as a going concern.

Company Financial Statements

Company Balance Sheet

ASSETS	Note	2019 \$'000	2018 \$'000
Intangible assets			
Goodwill	30	3,090	4,635
Investments			
Land and buildings	16	239	239
Investment in subsidiary undertakings	31	287,856	248,051
Other financial investments	32	1,140,496	1,057,900
		1,428,591	1,306,190
Reinsurers' share of technical provisions			
Provision for unearned premiums	36	50,995	69,049
Claims outstanding	36	189,355	240,945
		240,350	309,994
Debtors			
Debtors arising out of direct insurance operations			
- Policyholders		37,642	34,049
- Intermediaries		69,111	89,805
Debtors arising out of reinsurance operations		90,089	82,453
Other debtors	33	81,364	34,387
		278,206	240,694
Other assets			
Tangible assets	34	2,766	2,872
Deposits from third parties		29,651	57,646
Cash at bank and in hand		110,643	82,153
		143,060	142,671
Prepayments and accrued income			
Accrued interest and rent		7,980	7,655
Deferred acquisition costs	36	70,720	80,798
		78,700	88,453
Total assets		2,171,997	2,092,637

Company Financial Statements continued

Company Balance Sheet

LIABILITIES	Note	2019 \$'000	2018 \$'000
Capital and reserves			
Called up share capital	20	233,242	233,242
Share premium		19,115	-
Revaluation reserve		6,406	6,042
Profit and loss account		630,544	519,302
Total shareholders' funds		889,307	758,586
Technical provisions			
Provision for unearned premiums	36	310,541	334,313
Claims outstanding	36	775,176	768,391
		1,085,717	1,102,704
Creditors - amounts due within one year			
Creditors arising out of direct insurance operations		10,882	9,008
Creditors arising out of reinsurance operations		46,130	76,833
Other creditors including taxation and social security	35	79,801	36,664
Deposits from third parties		29,651	57,721
		166,464	180,226
Creditors - amounts due after more than one year			
Deferred consideration		-	9,799
Accruals and deferred income		30,509	41,322
Total liabilities		2,171,997	2,092,637

In accordance with the exemption permitted under section 408 of the Companies Act 2006, the Company profit or loss account, and Company statement of other comprehensive income are not presented as part of these financial statements. The Company's profit after taxation for the year was \$111.2 million (2018: \$72.5 million profit).

Company Statement of Changes in Equity

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

Capital and reserves	Called up share capital	Share premium	Revaluation reserve	Profit and loss account	Total shareholders' equity
	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 January 2018	233,242	-	3,062	446,825	683,129
Profit for the financial year	-	-	-	72,477	72,477
Revaluation of subsidiary undertakings	-	-	2,980	-	2,980
At 31 December 2018	233,242	-	6,042	519,302	758,586

28. Summary of significant accounting policies

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

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

(a) Basis of Preparation

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

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

(b) Exemptions for qualifying entities under FRS 102

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

- From preparing a statement of cash flows, on the basis that it is a qualifying entity and the consolidated statement of cash flows, included in these financial statements, includes the Company's cash flows;
- Related party disclosures, and
- From disclosing key management personnel compensation, as required by FRS 102 paragraph 33.7.

(c) Investments in subsidiary undertakings

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

Notes to the Company Financial Statements

29. Risk management

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

29.1 Insurance risk

Reserving risk

Gross and net development triangles of the estimate of ultimate claim cost for claims notified in a given year are presented below for the Company and give an indication of the accuracy of the Company's estimation technique for claims payments. Data has been translated using 31 December 2019 foreign exchange rates throughout the triangle.

Loss development triangles – GROSS Ultimate claims and cumulative payments	Accident year								
	2012 \$'000	2013 \$'000	2014 \$'000	2015 \$'000	2016 \$'000	2017 \$'000	2018 \$'000	2019 \$'000	Total \$'000
End of reporting year	158,395	193,293	164,627	190,574	264,722	260,283	285,876	356,785	
- one year later	125,488	206,241	171,074	222,496	266,076	259,137	320,171		
- two years later	134,463	206,501	143,641	242,807	259,581	276,951			
- three years later	138,855	187,908	143,484	232,579	316,052				
- four years later	150,050	176,114	142,199	253,521					
- five years later	141,598	175,044	155,235						
- six years later	139,799	175,988							
- seven years later	138,719								
Current estimate of ultimate claims	138,719	175,988	155,235	253,521	316,052	276,951	320,171	356,785	
Cumulative payments to date	131,565	161,297	120,966	196,774	225,745	185,377	168,918	96,768	
Liability recognised in the balance sheet	7,154	14,691	34,269	56,747	90,307	91,574	151,253	260,017	706,012
Provision in respect of previous years									69,164
Total provision included in the balance sheet									775,176

Loss development triangles – NET Ultimate claims and cumulative payments	Accident year								
	2012 \$'000	2013 \$'000	2014 \$'000	2015 \$'000	2016 \$'000	2017 \$'000	2018 \$'000	2019 \$'000	Total \$'000
End of reporting year	123,674	165,491	125,518	149,223	193,870	200,234	218,003	253,829	
- one year later	121,191	162,094	123,913	162,717	191,322	209,533	246,524		
- two years later	108,421	153,962	102,211	160,365	182,806	213,558			
- three years later	105,424	147,643	106,235	154,807	221,511				
- four years later	102,319	143,471	107,172	167,458					
- five years later	111,553	139,822	115,325						
- six years later	108,896	141,710							
- seven years later	107,949								
Current estimate of ultimate claims	107,949	141,710	115,325	167,458	221,511	213,558	246,524	253,829	
Cumulative payments to date	100,690	125,482	90,664	127,958	160,971	145,251	125,767	58,265	
Liability recognised in the balance sheet	7,259	16,228	24,661	39,500	60,540	68,307	120,757	195,564	532,816
Provision in respect of previous years									53,005
Total provision included in the balance sheet									585,821

29.2 Market risk

i. Foreign exchange risk

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

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

FX risk exposure 31 December 2018	AUD \$ \$'000	CAD \$ \$'000	CHF Fr \$'000	EUR € \$'000	GBP £ \$'000	Subtotal \$'000	USD \$ \$'000	Total \$'000
Total assets	16,987	4,330	30,260	404,530	520,342	976,449	1,116,188	2,092,637
Total liabilities	(24,331)	(140)	(27,698)	(433,934)	(594,979)	(1,081,082)	(252,969)	(1,334,051)
Net assets	(7,344)	4,190	2,562	(29,404)	(74,637)	(104,633)	863,219	863,219

Notes to the Company Financial Statements continued

Sensitivity analysis

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

FX risk exposure – sensitivity Change in exchange rate of Canadian Dollar, Australian Dollar, Swiss Franc, Euro and Sterling, relative to US Dollar	Impact on profit after tax		Impact on net assets	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
US Dollar weakens 30% against other currencies	13,579	5,701	(6,422)	(32,926)
US Dollar weakens 20% against other currencies	9,053	3,801	(4,281)	(21,951)
US Dollar weakens 10% against other currencies	4,526	1,900	(2,141)	(10,975)
US Dollar strengthens 10% against other currencies	(4,526)	(1,900)	2,141	10,975
US Dollar strengthens 20% against other currencies	(9,053)	(3,801)	4,281	21,951
US Dollar strengthens 30% against other currencies	(13,579)	(5,701)	6,422	32,926

ii. Interest rate risk

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

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

Investments and cash – duration 31 December 2018	<1 yr \$'000	1-2 yrs \$'000	2-3 yrs \$'000	3-4 yrs \$'000	4-5 yrs \$'000	5-10 yrs \$'000	>10 yrs \$'000	N/A \$'000	Total \$'000
Variable yield securities	29,242	-	-	-	-	-	-	-	29,242
Debt securities	151,057	97,806	133,887	238,164	139,005	164,689	64,242	-	988,850
Other investments	-	-	-	-	-	-	-	39,808	39,808
Total other financial investments	180,299	97,806	133,887	238,164	139,005	164,689	64,242	39,808	1,057,900
Deposits from third parties	57,646	-	-	-	-	-	-	-	57,646
Cash at bank	82,153	-	-	-	-	-	-	-	82,153
Total	320,098	97,806	133,887	238,164	139,005	164,689	64,242	39,808	1,197,699

Sensitivity analysis

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

Investments and cash – interest rate sensitivity Shift in yield (basis points)	Impact on profit after tax		Impact on net assets	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
100 basis point increase	(42,915)	(31,588)	(42,915)	(31,588)
50 basis point increase	(21,447)	(15,794)	(21,447)	(15,794)
50 basis point decrease	20,793	15,634	20,793	15,634
100 basis point decrease	40,860	31,268	40,860	31,268

29.3 Credit risk

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

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

Investments, reinsurance assets and cash – credit ratings 31 December 2018	AAA \$'000	AA \$'000	A \$'000	BBB \$'000	BB \$'000	Not rated \$'000	Total \$'000
Variable yield securities	29,242	-	-	-	-	-	29,242
Debt securities	72,557	509,779	256,801	146,151	3,562	-	988,850
Other investments	-	-	-	-	-	39,808	39,808
Total other financial investments	101,799	509,779	256,801	146,151	3,562	39,808	1,057,900
Reinsurers' share of technical provisions	-	95,483	211,560	1,396	1,555	-	309,994
Debtors arising out of reinsurance operations	-	25,810	55,876	89	678	-	82,453
Cash at bank	82,153	-	-	-	-	-	82,153
Total	183,952	631,072	524,237	147,636	5,795	39,808	1,532,500

The Company's largest counterparty exposure is \$214.7m of US Government securities (2018: \$276.2m).

Notes to the Company Financial Statements continued

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

Financial assets – ageing 31 December 2019	Not yet due \$'000	Up to 3 months past due \$'000	3 to 6 months past due \$'000	7 to 12 months past due \$'000	> 1 year past due \$'000	Total \$'000
Reinsurers share of claims outstanding	189,355	-	-	-	-	189,355
Insurance debtors	77,825	18,644	10,284	-	-	106,753
Reinsurance debtors	86,672	1,232	1,940	245	-	90,089
Other debtors	81,364	-	-	-	-	81,364
Total	435,216	19,876	12,224	245	-	467,561

Financial assets – ageing 31 December 2018	Not yet due \$'000	Up to 3 months past due \$'000	3 to 6 months past due \$'000	7 to 12 months past due \$'000	> 1 year past due \$'000	Total \$'000
Reinsurers share of claims outstanding	240,945	-	-	-	-	240,945
Insurance debtors	108,391	11,288	4,175	-	-	123,854
Reinsurance debtors	51,468	15,111	9,742	6,132	-	82,453
Other debtors	34,387	-	-	-	-	34,387
Total	435,191	26,399	13,917	6,132	-	481,639

Fair value estimation

The following table presents the Company's financial investments measured at fair value at 31 December 2019 and 31 December 2018 categorised into levels 1, 2 and 3, reflecting the categorization criteria specified in FRS 102 (s34.22). No liabilities were measured at fair value at 31 December 2019 or 31 December 2018.

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

Financial investments – pricing basis	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
31 December 2018				
Variable yield securities	-	29,242	-	29,242
Debt securities	1,189	987,661	-	988,850
Other investments	-	-	39,808	39,808
Total other financial investments	1,189	1,016,903	39,808	1,057,900

29.4 Liquidity risk

The following table is an analysis of the net contractual cash flows based on all the liabilities held at 31 December 2019 and 2018:

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

Financial liabilities – projected cash flows 31 December 2018	Within 1yr \$'000	1-3 years \$'000	3-5 years \$'000	>5 years \$'000	Total \$'000
Net claims outstanding	152,216	185,301	98,605	91,324	527,446
Creditors from direct insurance operations	9,008	-	-	-	9,008
Creditors from reinsurance operations	76,833	-	-	-	76,833
Other creditors	36,664	-	-	-	36,664
Total	274,721	185,301	98,605	91,324	649,951

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

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

Investments and cash – maturity 31 December 2018	Within 1yr \$'000	1-3 years \$'000	3-5 years \$'000	>5 years \$'000	N/A \$'000	Total \$'000
Variable yield securities	29,242	-	-	-	-	29,242
Debt securities	87,900	210,795	158,861	531,294	-	988,850
Other investments	-	-	-	-	39,808	39,808
Total other financial investments	117,142	210,795	158,861	531,294	39,808	1,057,900
Cash at bank	82,153	-	-	-	-	82,153
Total	199,295	210,795	158,861	531,294	39,808	1,140,053

Notes to the Company Financial Statements continued

30. Goodwill

	2019 \$'000	2018 \$'000
Cost		
At 1 January	23,176	23,176
At 31 December	23,176	23,176
Accumulated amortisation		
At 1 January	18,541	16,610
Amortisation charge for the year	1,545	1,931
At 31 December	20,086	18,541
Net book value		
At 31 December	3,090	4,635

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

31. Investment in subsidiary undertakings

Set out below are HCCII's subsidiaries, as at 31 December 2019, with details of the percentages of nominal value and voting rights held by HCCII. The movement in the revaluation of subsidiary undertakings is summarised below:

	2019 \$'000	2018 \$'000
At 1 January	248,051	3,061
Investment in subsidiary undertaking	20,000	120,000
HCCG Merger	19,115	-
Acquisitions during the year	326	121,963
Revaluation of subsidiary undertakings	165	3,296
Foreign exchange impact on translation to closing rate	199	(269)
At 31 December	287,856	248,051

HCCII invested an additional \$20m of share capital into TME during December 2019.

During 2019, investments in subsidiary undertakings has increased by the fair value of \$19m arising from the HCCG Merger into TME - refer to Note 5.

The 1 October 2018 acquisition cost of Qdos Holdings Limited and its subsidiary Qdos Broker and Underwriting Services Limited has been updated by an additional amount of \$0.3m during 2019.

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

Name	Address of the registered office	Principal activity	Class of shares	Effective %
HCCI Credit Services Limited	The Grange, Rearsby, Leicester, LE7 4FY, UK	Information services provider	Ordinary	100%
Tokio Marine Europe S.A. (incorporated in Luxembourg)	33, Rue Sainte Zithe, L-2763, Luxembourg	Insurance company	Ordinary	100%
Qdos Broker and Underwriting Services Limited	Windsor House, Leicestershire, LE4 9HA, UK	Insurance intermediary	Ordinary	100%
Qdos Holdings Limited	Windsor House, Leicestershire, LE4 9HA, UK	Holding company	Ordinary	100%
HCC Diversificación y Soluciones S.L. (incorporated in Spain)	13, Torre Diagonal Mar B1, Carrer de Josep Pla, 2, 08019 Barcelona, Spain	Administration services	Ordinary	100%

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

32. Other financial investments

	Fair value		Book cost	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Variable yield securities and units in unit trusts	11,584	29,242	11,584	29,242
Debt securities and other fixed-income securities	1,081,784	988,850	1,064,438	1,007,748
Other investments	47,128	39,808	44,313	39,736
	1,140,496	1,057,900	1,120,335	1,076,726

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

Notes to the Company Financial Statements continued

33. Other debtors

	2019 \$'000	2018 \$'000
Claims funds	2,567	16,216
Other debtors	368	182
Amounts owed by group companies	78,429	17,989
	81,364	34,387

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

34. Tangible assets

	Leasehold improvements \$'000	Owner occupied Land and Buildings \$'000	Computer equipment \$'000	Fixtures, fittings and office equipment \$'000	Total \$'000
Book cost					
At 1 January 2019	1,466	3,848	19	1,904	7,237
Disposals	-	-	(19)	(139)	(158)
At 31 December 2019	1,466	3,848	-	1,765	7,079
Accumulated depreciation					
At 1 January 2019	1,466	1,049	19	1,831	4,365
Disposals	-	-	(19)	(139)	(158)
Charge for the year	-	88	-	18	106
At 31 December 2019	1,466	1,137	-	1,710	4,313
Net book value					
31 December 2019	-	2,711	-	55	2,766
31 December 2018	-	2,799	-	73	2,872

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

35. Other creditors including taxation and social security

	2019 \$'000	2018 \$'000
Corporation tax	17,695	2,672
Deferred tax liability	6,799	10,122
Other creditors	278	283
Deferred consideration	10,476	5,753
Amounts owed by group companies	44,553	17,834
	79,801	36,664

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

Deferred tax liability	2019 \$'000	2018 \$'000
At 1 January - deferred tax liability	10,122	10,605
Changes in accelerated capital allowances	6	(161)
Deferred taxation of release of Equalisation provision	(3,047)	(3,047)
Technical reserves	125	2,555
Short-term timing differences	(407)	170
At 31 December - deferred tax liability	6,799	10,122

The deferred tax liability consists of the following amounts:

	2019 \$'000	2018 \$'000
Accelerated capital allowances	256	250
Technical reserves	915	790
Short-term timing differences	95	502
Deferred taxation for release of Equalisation provision	5,533	8,580
Deferred tax liability	6,799	10,122

A potential deferred tax asset of \$1.6m (2018: \$0.1m) in respect of certain unutilised tax losses has not been recognised as there is insufficient evidence that it will be recoverable. This asset would be recovered should sufficient taxable profits be generated in future which would be eligible for relief against the unutilised tax losses.

Notes to the Company Financial Statements continued

36. Technical provisions – Company

Gross of reinsurance	Provisions for unearned premiums \$'000	Claims outstanding (1) \$'000	Deferred acquisition costs (2) \$'000	Net technical liabilities \$'000
At 1 January 2019	334,313	768,391	80,798	1,021,906
Movement in provision	(33,440)	296,193	(10,721)	273,474
Exchange adjustments	9,668	15,064	643	24,089
Part VII transfer at 1 January 2019	-	(304,472)	-	(304,472)
At 31 December 2019	310,541	775,176	70,720	1,014,997
Reinsurance				
At 1 January 2019	69,049	240,945	16,764	293,230
Movement in provision	(23,264)	75,426	(5,782)	57,944
Exchange adjustments	5,210	5,130	204	10,136
Part VII transfer at 1 January 2019	-	(132,146)	-	(132,146)
At 31 December 2019	50,995	189,355	11,186	229,164
Net				
At 31 December 2019	259,546	585,821	59,534	785,833
At 31 December 2018	265,264	527,446	64,034	728,676

(1) Claims outstanding includes claims incurred but not reported (IBNR) reserves of \$374.0m gross of reinsurance and \$62.0m reinsurer's share of IBNR reserves (2018: \$376.4m gross; \$105.0m reinsurer's share).

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

37. Tax on profit on ordinary activities

	2019 \$'000	2018 \$'000
UK Corporation tax at 19.00% (2018:19.00%)		
Current tax on income for the year	34,846	19,641
Tax in respect of prior years	1,798	(3,518)
Current tax charge for the year	36,644	16,123
Deferred tax - origination and reversal of timing differences	(3,203)	(484)
Tax on profit on ordinary activities	33,441	15,639

The tax assessed for the year is higher (2018: lower) than the standard rate of corporation tax in the UK. The differences are explained below:

	2019 \$'000	2018 \$'000
Profit on ordinary activities before taxation	144,683	88,116
Tax on profit on ordinary activities at standard rate of 19.00% (2018: 19.00%)	27,490	16,742
Expenses not deductible for tax purposes	206	298
Amortisation of goodwill and intangibles	294	367
Foreign tax	1,350	1,527
Effect of foreign exchange	762	(456)
Tax in respect of prior years	1,798	(3,518)
Movement in unrecognised deferred tax asset	1,570	-
Other	(29)	679
Tax on profit on ordinary activities	33,441	15,639

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