



HCC



HCC Underwriting Agency Ltd

Syndicate 4141

2010

Annual Report and Accounts

SYNDICATE ANNUAL ACCOUNTS

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DIRECTORS AND ADVISORS

Managing Agent:	HCC Underwriting Agency Ltd
Registered Office:	Walsingham House 35 Seething Lane London EC3N 4AH
Registered No.:	4632146
Directors:	J H Bishop - Chairman B J Cook N I Hutton-Penman - Chief Executive Officer B R A Merriman M J Schell W J Taylor W R Treen
Syndicate:	Syndicate 4141
Active Underwriter:	B J Cook
Company Secretary:	R L Hughes
Bankers:	Barclays Bank Plc
Auditors:	PricewaterhouseCoopers LLP

REPORT OF THE DIRECTORS OF THE MANAGING AGENT

The directors of the Managing Agent present their report for the year ended 31 December 2010.

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

Principal activity

The principal activity of the business is the transaction of general insurance business written in the United Kingdom.

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

Syndicate 4141 is a wholly aligned HCC Syndicate which serves as the platform for HCC's growth in the Lloyd's market. The Syndicate was set up in 2008 allowing HCC to start to build a presence in Lloyd's, the volume in 2010 has increased dramatically.

During 2010 the Syndicate expanded into new lines of business that it shares with the other insurance carriers in HCC's International operation. There are defined rules that the underwriters follow determining whether Lloyd's is used or the other HCC International carriers. This shared business includes Property Treaty, Property Direct and Facultative, Accident and Health, Energy, Directors and Officers, Contingency and Marine Hull. In addition to these lines, HCC uses the Syndicate to write its General Liability account formerly underwritten in Syndicate 4040, as well as the Travel Medical business written by the HCC owned HCC Medical Insurance Services (HCCMIS) agency based in Indiana, USA.

Following a successful buyout of the external names of Syndicate 4040, the other Syndicate managed by the Managing Agency, the Syndicate 4040 business was renewed into Syndicate 4141 for the 2010 year. It is expected that Syndicate 4040 will close into Syndicate 4141 when its final open year closes at the end of 2011.

The Managing Agency planned for the Syndicate to write in the region of £130 million of business during 2010; because of market conditions and certain clients requesting other HCC paper, it has fallen short of this target.

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

	2010 £000	2009 £000	Change %
Gross written premiums	93,486	25,742	263.2
(Loss) for the financial year	(2,724)	(115)	(2,268.7)
Combined ratio	104.7%	100.6%	4.1
Investment return	216	37	483.8

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

The directors do not believe comparisons on these key performance indicators are worthwhile between 2009 and 2010 given the significant business change within the Syndicate.

Results

The result for calendar year is a loss of £2,723,938 (2009: loss of £114,554). The loss whilst disappointing, was delivered in a year with significant international catastrophes that affected the Property portfolios, in addition to one-off losses on the Travel Medical account which also experienced some reserve strengthening on the 2009 year. All things being equal we would expect 2011 to be a profitable year. Profits will be distributed by reference to the results of individual underwriting years.

Business Review

The original main business written by Syndicate 4141, namely the HCCMIS travel medical business, continued to grow during 2010 as HCCMIS widened its internet reach for its Atlas travel medical programme. Its other travel medical type products also performed well. Loss ratios have deteriorated during 2010 but the deterioration can be attributed to large individual losses rather than significant attritional loss. We expect this business to grow further during 2011.

In general terms the new lines of business written in 2010 have all been operating in competitive market conditions. The Property Treaty account, a new line to HCC, performed well though fell short of its 2010 budget, in the end writing £20.4m against a budget of £25.5m. Conditions were acceptable but there is plentiful capacity and we rely on our good client relationships to build the business. The Syndicate was affected by a number of significant international catastrophes during 2010, booking a net loss for the Chile Earthquake of £2.9m and a loss of £0.4m for the first New Zealand earthquake. Notwithstanding these losses, the Property Treaty account returned a profit of £2.3m during 2010.

The General Liability account was formerly written by Syndicate 4040 and was transferred to Syndicate 4141 for the 2010 underwriting year. The account continues to reduce in size and we apply strict underwriting procedures at this very soft part of the cycle. We continue to lose business to competitors who accept risk often at considerable discounts to our benchmark price. Premium for the 2010 year will be about £23m.

Other lines represent a smaller portion of the overall premium. Our Energy account totals £6m and is mainly driven by our Canadian business that the Lloyd's licence gives us the opportunity to write. In general the Energy market is very competitive onshore, but reasonably well rated offshore, albeit we do not write Gulf of Mexico exposed business in the Syndicate where rates have remained stronger.

The remainder of the business, namely Accident and Health, Sports Disability, Contingency, Property Direct and Facultative, Marine Hull and Directors and Officers in total represent £43m of 2010 premium to the Syndicate. In all the lines the rates are at best stable but under pressure, especially the Property business. We remain conservative in the way we underwrite these lines and believe that we will see growth in these lines as we move forward and are able to effectively leverage our position in Lloyd's.

Market conditions and future developments

2010 represented our first year with our new product lines and in general the directors are satisfied with performance. We expect the Syndicate will grow as HCC affirms its position in Lloyd's and adds further to its Lloyd's product offerings. It will however not grow if the pricing environment is not adequate and it will be important for the maintenance of premium volume during 2011 that rates stabilise from their general downward trends experienced in 2010.

HCC remains an underwriter of business focused on the bottom line rather than the top line and premium will not be written at inadequate prices. This philosophy will naturally be followed by the HCC underwriters writing on behalf of Syndicate 4141 and we expect the growth in the 2011 premium to come with increased profitability as we take advantage of the reputation and distribution of the HCC group network.

Reinsurance

We purchase significant reinsurance to cover more catastrophe exposed lines and this has stood us in good stead in respect of both the Chile and the New Zealand Earthquake losses. The programme is shared between the Syndicate and the other HCC International carriers. Premiums are allocated pro rata to gross written premiums and recoveries are shared between insurance carriers by reference to the share of gross loss by insurance carrier. In addition the Syndicate purchases quota share reinsurance to balance line size and premium where it feels it is prudent to do so.

Principal risks and uncertainties

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

Insurance risk

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

Credit risk

The Syndicate is exposed to credit risk through its investment in money market and short term liquidity funds, and amounts due from intermediaries and policyholders. There is also a risk of default by one or more of the Syndicate's reinsurers. All new reinsurers are assessed before business is placed with them.

Market risk

The key aspect of market risk is that the Syndicate incurs losses on foreign exchange movements as a result of mismatches between the currencies in which assets and liabilities are denominated. It is the policy of management to match assets and liabilities by currency. The Board of Directors reviews currency matching regularly. Interest rate risk arises primarily from investment in fixed interest securities. This syndicate has no fixed interest securities.

Liquidity risk

This is the risk that the Syndicate will not be able to meet its liabilities as they fall due, owing to a shortfall in cash. To mitigate this risk cash flow projections are reviewed regularly. During 2010 all investable funds were held on the money market or with short term liquidity funds.

Operational risk

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

Regulatory risk

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

Directors

The directors of the Managing Agent who served during the year ended 31 December 2010, or who were appointed or resigned subsequent to the year end, were as follows:

P Baynham (resigned 2 March 2010)
 J H Bishop FIA
 B J Cook (appointed 25 January 2010)
 N I Hutton-Penman BSc, ACA
 B R A Merriman FCA (appointed 30 July 2010)
 M L Onslow (resigned 8 November 2010)
 M J Schell (appointed 27 January 2011)
 W J Taylor BCom, ACA
 W R Treen BSc, FIA

Directors' interests

No director participated on the Syndicate.

Financial information on HCC Underwriting Agency Ltd

The total managed Syndicate allocated capacity of the Managing Agent, its income, expenses net of recharges to the managed Syndicates and net assets as at 31 December are set out below:

	2010 £000	2009 £000
Managed capacity	130,739	69,491
Fee income	822	462
Expenses net of recharges	(791)	(491)
Other income	2	8
Profit/(loss) before tax	33	(21)
Net assets	608	584

Expenses incurred by the Managing Agent on the administration of the managed syndicates are recharged to the Syndicate and year of account to which they relate.

Income and expenses shown above are based on information included in the Managing Agent's unaudited financial statements. Audited copies of the financial statements will be available for inspection from its registered office.

Investment policy and management

The Syndicate maintains funds in US dollars, Sterling, Canadian dollars, Euros and Australian dollars.

During 2010 the various currency funds had not reached sufficient size to warrant the use of a professional fund manager, and were placed on the money market or within short-term liquidity funds.

Other matters

No other consents have been requested of the Council of Lloyd's. The Syndicate has not entered into any incentive agreements with brokers. No Errors and Omissions insurance is held by the Managing Agent.

Statement of Managing Agent's responsibilities

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

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

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

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

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

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

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

Disclosure of information to the auditors

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

Auditors

PricewaterhouseCoopers LLP will be reappointed as Syndicate auditors.

Annual General Meeting

The Directors do not propose to hold a Syndicate Annual General Meeting during 2011, as permitted under the Syndicate Meetings (Amendment No. 1) Byelaw (No. 18 of 2000).

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

Approved for and on behalf of HCC Underwriting Agency Ltd



N. I. Hutton-Penman
Chief Executive
17 March 2011

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SYNDICATE 4141

We have audited the syndicate annual accounts for the year ended 31 December 2010 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Statement of Cash Flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of the managing agent and the auditors

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

This report, including the opinions, has been prepared for and only for the syndicate's members as a body in accordance with section 10 of part 2 of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the syndicate annual accounts

An audit involves obtaining evidence about the amounts and disclosures in the syndicate annual accounts sufficient to give reasonable assurance that the syndicate annual accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the syndicate's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the managing agent; and the overall presentation of the syndicate annual accounts.

Opinion on syndicate annual accounts

In our opinion the syndicate annual accounts:

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2010 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

Opinion on other matter prescribed by The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008

In our opinion the information given in the Managing Agent's Report for the financial year in which the syndicate annual accounts are prepared is consistent with the syndicate annual accounts.

Matters on which we are required to report by exception

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

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



Alex Bertolotti (Senior statutory auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
17 March 2011

**PROFIT AND LOSS ACCOUNT:
TECHNICAL ACCOUNT - GENERAL BUSINESS**
for the year ended 31 December 2010

	Notes	£000	2010 £000	£000	2009 £000
Earned premiums, net of reinsurance					
Gross premiums written	3	93,486		25,742	
Outward reinsurance premiums		<u>(12,588)</u>		<u>(39)</u>	
Net premiums written		<u>80,898</u>		<u>25,703</u>	
Change in the provision for unearned premiums					
Gross amount		(21,612)		(1,622)	
Reinsurers' share		<u>3,477</u>		<u>8</u>	
Change in the net provision for unearned premiums		<u>(18,135)</u>		<u>(1,614)</u>	
Earned premiums, net of reinsurance			62,763		24,089
Allocated investment return transferred from the non-technical account			216		37
Claims incurred, net of reinsurance					
Claims paid					
Gross amount		(18,733)		(10,338)	
Reinsurers' share		<u>107</u>		<u>-</u>	
Net claims paid		<u>(18,626)</u>		<u>(10,338)</u>	
Change in the provision for claims					
Gross amount		(24,066)		(2,275)	
Reinsurers' share		<u>4,738</u>		<u>-</u>	
Change in the net provision for claims		<u>(19,328)</u>		<u>(2,275)</u>	
Claims incurred, net of reinsurance			(37,954)		(12,613)
Net operating expenses	5		<u>(27,749)</u>		<u>(11,628)</u>
Balance on the technical account for general business			<u>(2,724)</u>		<u>(115)</u>

**PROFIT AND LOSS ACCOUNT:
NON-TECHNICAL ACCOUNT**
for the year ended 31 December 2010

	Notes	2010 £000	2009 £000
Balance on the technical account for general business		(2,724)	(115)
Investment income	7	216	37
Allocated investment return transferred to general business technical account		(216)	(37)
		<hr/>	<hr/>
(Loss) for the financial year		(2,724)	(115)
		<hr/> <hr/>	<hr/> <hr/>

All operations are continuing.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
for the year ended 31 December 2010

	2010 £000	2009 £000
(Loss) for the financial year	(2,724)	(115)
Foreign currency exchange gain/(loss) on retranslation	104	(306)
	<hr/>	<hr/>
Total recognised gains and losses	(2,620)	(421)
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BALANCE SHEET

as at 31 December 2010

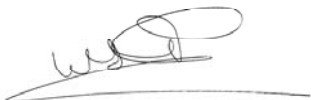
ASSETS

	Notes	2010 £000	£000	2009 £000	£000
Investments					
Other financial investments	8		17,783		4,413
Reinsurers' share of technical provisions					
Provision for unearned premiums		3,487		8	
Claims outstanding	4	<u>4,651</u>		<u>-</u>	
Debtors					
			8,138		8
Debtors arising out of direct insurance operations	9	17,461		8,202	
Debtors arising out of reinsurance operations		107		-	
Other debtors	10	<u>1,989</u>		<u>57</u>	
			19,557		8,259
Other assets					
Cash at bank and in hand		1,977		99	
Other	11	<u>8,097</u>		<u>1,096</u>	
			10,074		1,195
Prepayments and accrued income					
Accrued interest		104		4,390	
Deferred acquisition costs		9,044		85	
Other prepayments and accrued income		<u>106</u>		<u>-</u>	
			9,254		4,475
Total assets			<u>64,806</u>		<u>18,350</u>

LIABILITIES

	Notes	2010 £000	£000	2009 £000	£000
Member's balance	13		(925)		1,679
Technical provisions					
Provision for unearned premiums		32,601		10,411	
Claims outstanding	4	28,493		4,201	
			61,094		14,612
Creditors					
Creditors arising out of direct insurance operations		1,375		1,658	
Creditors arising out of reinsurance operations		3,258		38	
Other creditors	12	3		193	
			4,636		1,889
Accruals and deferred income			1		170
Total liabilities			64,806		18,350

The accounts were approved by the Board of HCC Underwriting Agency Ltd on 17 March 2011 and signed on its behalf by



W J Taylor
Finance Director
17 March 2011

STATEMENT OF CASH FLOWS

for the year ended 31 December 2010

	Notes	2010 £000	2009 £000
Net cash inflow from operating activities	14	21,828	1,874
Financing Member's Agents fees		<u>16</u>	<u>(9)</u>
Net cash inflow		<u>21,844</u>	<u>1,865</u>
Cash flows were invested as follows:			
Increase/(decrease) in cash holdings	15	1,796	(106)
Increase in overseas deposits	15	6,710	683
Net portfolio investments	15	<u>13,338</u>	<u>1,288</u>
Net investment of cash flows		<u>21,844</u>	<u>1,865</u>

NOTES TO THE FINANCIAL STATEMENTS

as at 31 December 2010

1. BASIS OF PREPARATION

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

2. ACCOUNTING POLICIES

Premiums written

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

Unearned premiums

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

Reinsurance premium ceded

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

Claims provisions and related recoveries

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

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

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

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

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

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

Unexpired risks provision

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

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

Acquisition costs

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

Foreign currencies

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

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

Investments

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

Investment return

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

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

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

Taxation

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

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

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

Profit commission

No profit commission is charged by the Managing Agent.

3. SEGMENTAL ANALYSIS

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

	<i>Gross written premiums</i>	<i>Gross premiums earned</i>	<i>Gross claims incurred</i>	<i>Gross operating expenses</i>	<i>Reinsurance balance</i>	<i>Total</i>	<i>Technical provisions</i>
2010	£000	£000	£000	£000	£000	£000	£000
Accident and health	31,308	29,710	(17,297)	(14,436)	96	(1,927)	19,287
Marine	599	400	(326)	(141)	(25)	(92)	519
Energy	3,106	1,595	15	(361)	(794)	455	850
Fire and other damage to property	2,721	1,634	(1,406)	(418)	(537)	(727)	2,080
Third party liability	22,757	12,859	(7,655)	(6,370)	(2,111)	(3,277)	16,852
Pecuniary loss	2,177	1,876	(900)	(837)	890	1,029	940
Total	62,668	48,074	(27,569)	(22,563)	(2,481)	(4,539)	40,259
Reinsurance	30,818	23,800	(15,230)	(5,978)	(993)	1,599	12,724
Total	93,486	71,874	(42,799)	(28,541)	(3,474)	(2,940)	52,983

	<i>Gross written premiums</i> £000	<i>Gross premiums earned</i> £000	<i>Gross claims incurred</i> £000	<i>Gross operating expenses</i> £000	<i>Reinsurance balance</i> £000	<i>Total</i> £000	<i>Technical provisions</i> £000
2009							
Third party liability	165	235	(102)	(74)	(31)	28	210
Accident and health	25,577	23,885	(12,511)	(11,554)	-	(180)	14,402
Total	25,742	24,120	(12,613)	(11,628)	(31)	(152)	14,612

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

All premiums were concluded in the UK.

Total commissions for direct insurance accounted for in the year amounted to £17,890,213 (2009: £10,416,669)

The geographical analysis of gross written premiums by destination is:-

	2010 £000	2009 £000
UK	22,916	-
Other EU countries	4,933	-
Other	65,637	25,742
Total	93,486	25,742

4. CLAIMS OUTSTANDING

	Reported £000	IBNR £000	Total £000
2010			
Gross claims	16,052	12,441	28,493
Reinsurance	(3,153)	(1,498)	(4,651)
Net claims	12,899	10,943	23,842
2009			
Gross claims	6,035	(1,834)	4,201
Reinsurance	-	-	-
Net claims	6,035	(1,834)	4,201

Certain claims in the HCCMIS portfolio represent unadjusted claims notified and these claims have historically been settled below the 'unadjusted' level and the negative IBNR in 2009 includes this expected reduction.

The movement in the net provision for claims in 2010 includes a strengthening of £1.1m in respect of the 2009 business written in the Accident and Health line.

5. NET OPERATING EXPENSES

	2010 £000	2009 £000
Acquisition costs	24,376	11,091
Change in deferred acquisition costs	(4,466)	(674)
Reinsurers commissions and profit participation	(792)	-
Administrative expenses	8,464	1,297
Loss/(profit) on exchange	167	(86)
	27,749	11,628
Administrative expenses		
Salaries and related costs	2,018	60
Social security costs	164	7
Pension costs	162	6
Syndicate auditors' remuneration - Audit services	102	41
Syndicate auditors' remuneration - Other services	34	14
Personal expenses	911	245
Other expenses	5,073	924
	8,464	1,297

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

	2010	2009
Administration and finance	24	1
Underwriting	6	-
Claims	6	-
	36	1

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

6. EMOLUMENTS OF THE DIRECTORS OF HCC UNDERWRITING AGENCY LTD

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

	2010 £000	2009 £000
Emoluments	776	53

M L Onslow was active underwriter until his resignation on 8 November 2010. He is not paid directly by the Managing Agent. Included in the emoluments above is a recharge of £270,000 (2009: £19,000) for his services.

7. INVESTMENT INCOME

	2010 £000	2009 £000
Investment income		
Income from investments	216	37

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

	2010	2009
Average fund	14,826	3,788
Investment return	216	37
Calendar year investment yield	1.46%	0.98%

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

The investment return includes unrealised investment gains.

(b) Analysis of calendar year investment yield by currency:

	Return £000	2010 Fund £000	Yield	Return £000	2009 Fund £000	Yield
Australian dollars	60	1,490	4.04%	-	-	-
Canadian dollars	8	844	0.89%	-	-	-
Euros	2	698	0.24%	-	-	-
Sterling	7	1,481	0.47%	-	-	-
United states dollars	139	10,307	1.35%	37	3,788	0.98%

8. OTHER FINANCIAL INVESTMENTS

Other financial investments consist of variable yield securities with a cost and market value of £17,783,000 (2009: £4,413,000). No financial investments are listed on a recognised stock exchange.

9. DEBTORS ARISING OUT OF DIRECT INSURANCE OPERATIONS

	2010 £000	2009 £000
Due from intermediaries within one year	17,461	8,202

10. OTHER DEBTORS

	2010 £000	2009 £000
HCC Group Companies	1,836	22
Other	153	35
	1,989	57

11. OTHER ASSETS

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

12. OTHER CREDITORS

	2010 £000	2009 £000
HCC Group Companies	-	181
Other	3	12
	3	193

13. RECONCILIATION OF MEMBER'S BALANCE

	2010 £000	2009 £000
At 1 January	1,679	2,109
(Loss) for the financial year	(2,724)	(115)
Foreign currency exchange gains/(losses) on retranslation	104	(306)
Member's Agents Fees	16	(9)
Member's balance carried forward at 31 December	(925)	1,679

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

14. RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2010 £000	2009 £000
Operating (loss)/profit on ordinary activities	(2,724)	(115)
Realised and unrealised investment (gains)/losses	(301)	470
Increase in net technical provisions	38,352	2,211
Increase in debtors	(11,298)	(2,299)
Increase in prepayments & accrued income	(4,779)	(247)
Increase in creditors	2,747	1,837
Increase in accruals & deferred income	(169)	17
Net cash inflow from operating activities	21,828	1,874

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

	2010 £000	2009 £000
Cash flow		
Increase/(decrease) in cash holdings	1,796	(106)
Increase in overseas deposits	6,710	683
Increase in portfolio investments	13,338	1,288
Movement arising from cash flows	21,844	1,865
Changes in market value and exchange rates	405	(471)
Total movement in portfolio investments	22,249	1,394
Portfolio at 1 January	5,608	4,214
Portfolio at 31 December	27,857	5,608

	At 1 January 2010 £000	Cash flow £000	Changes to market value and currencies £000	At 31 December 2010 £000
Cash at bank and in hand	99	1,796	82	1,977
Overseas deposits	1,096	6,710	291	8,097
Total portfolio investments	4,413	13,338	32	17,783
Total cash and portfolio investments	5,608	21,844	405	27,857

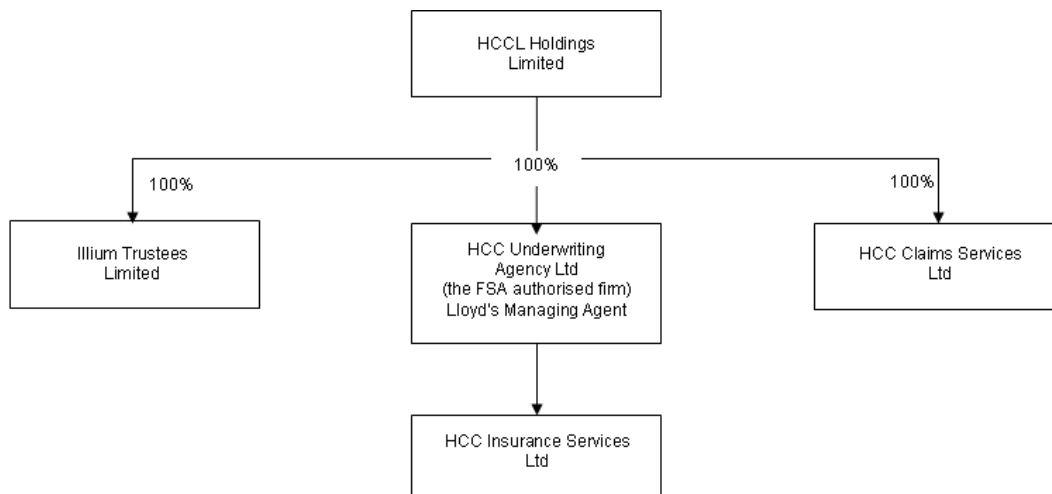
The cash flow on portfolio investments consists of the daily sweeping of the Syndicate's bank accounts into various Collective Investment Schemes.

16. RELATED PARTIES

(a) The Managing Agent, HCC Underwriting Agency Ltd, is a wholly-owned subsidiary of HCCL Holdings Ltd. The Syndicate transacts business with agencies that are owned by the HCC group (see Note e). The ultimate parent company of HCC Underwriting Agency Ltd is HCC Insurance Holdings Inc., a company incorporated in the USA and listed on the New York Stock Exchange. The consolidated accounts of HCC Insurance Holdings Inc. may be obtained from the company's principal office at 13403, Northwest Freeway, Houston, Texas 77040 - 6094, USA. Managing agency fees of £332,448 (2009: £91,462) were paid by the Syndicate to HCC Underwriting Agency Ltd. In addition to this, £Nil (2009: £205,044) was paid to HCC Underwriting Agency Ltd and £7,052,781 (2009: £287,046) was paid to HCC Service Company for expenses paid on behalf of the Syndicate.

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

(b) The Group's Lloyd's structure, comprising the principal subsidiaries, is as follows:



- (c) Nameco (No. 808) Limited provides the entire capacity of Syndicate 4141. The immediate controller of Nameco (No. 808) Limited is HCC Intermediate Holdings Inc, and the ultimate controller is HCC Insurance Holdings Inc.
- (d) Certain executives hold ordinary shares in a number of listed companies that transact business with the Syndicate. The aggregate of these holdings does not exceed 1% of the issued ordinary share capital of any of the companies.
- (e) Full delegated underwriting authorities have been provided to a number of entities within the HCC Group including HCC Specialty Ltd, HCC Medical Insurance Services, HCC Insurance Services Ltd and HCC Global Financial Products S L. These arrangements have produced total premium income to the Syndicate of £34,664,420.
- (f) HCC Claims Services Ltd provides claims and administrative services to the syndicate. Total fees charged to the syndicate were £489,354.
- (g) N I Hutton-Penman is the Chief Operating Officer of HCC International Insurance Company PLC. HCC International Insurance Company PLC is a wholly owned subsidiary of the HCC group.

M L Onslow was, until his resignation, the Chief Underwriting Officer of HCC's International operations and a director of HCC International Insurance Company PLC.

B J Cook is the Chairman and Chief Executive Officer of HCC International Insurance Company PLC.

B R A Merriman is the Chief Financial Officer of HCC International Insurance Company PLC.

J H Bishop is a Non Executive Director of HCC International Insurance Company PLC.

17. FUNDS AT LLOYD'S

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

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



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