HCC International
Insurance Company plc

Annual Report and Consolidated Financial Statements

Year ended 31 December 2023

TOKIO MARINE
HCC

tmhcc.com

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Business structure

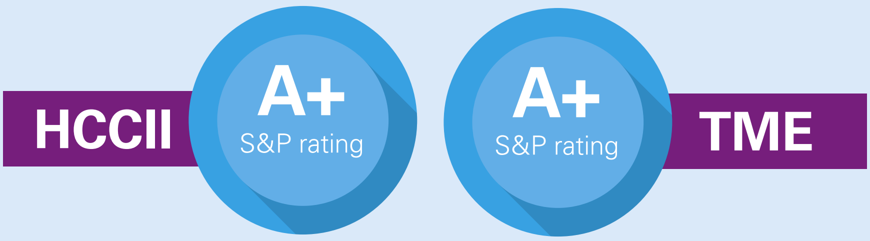
HCC International Insurance Company plc (HCCII), a United Kingdom (UK) insurance company, and its subsidiaries (the Group) is part of Tokio Marine, whose ultimate holding company is Tokio Marine Holdings, Inc. Tokio Marine is a leading international insurance group located in Tokyo, Japan, that has 268 subsidiaries and 26 affiliates located worldwide, which undertake non-life and life insurance and operate within the financial and general business sectors (including consulting and real estate).

As of 31 December 2023, Tokio Marine had total assets of ¥29.9 trillion (2022: ¥28.62 trillion) and shareholders' equity of ¥2.34 trillion (2022: ¥2.09 trillion). Standard & Poor's Financial Services LCC (S&P) has given Tokio Marine and a number of its major insurance companies a financial strength rating of A+ (Stable).

HCC Insurance Holdings, Inc. is a subsidiary of Tokio Marine based in the United States (US) and is a leading international Specialty Insurance group with more than 100 classes of Specialty Insurance. It 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 (GWPs) of $2.7 billion in 2023 (2022: $2.49 billion), is the operating segment outside of the US. Located in the UK and Europe, TMHCC International (illustrated by the structure chart on page 6) underwrites business on four different insurance platforms: HCCII, its wholly owned subsidiary; Tokio Marine Europe S.A. (TME), which is a Luxembourg-based insurance company; HCC Syndicate 4141 (a wholly aligned Lloyd's syndicate); and Houston Casualty Company (UK Branch). The platform used is based on prescribed rules and client choice if licensing permits.

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



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At 31 December 2023, the **principal subsidiaries** are:

Tokio Marine Europe S.A. (TME)

A Luxembourg-based insurance company.

GCube Underwriting Limited

An underwriting agency that is one of the largest global writers of renewable energy, covering wind, solar, bio, hydro, wave and tidal projects.

Renewable Energy Loss Adjusters Limited (RELA)

Provides loss-adjusting services to insurers of large renewable energy projects.

Qdos Holdings Limited

A UK holding company and its wholly owned subsidiary and underwriting agency, Qdos Broker and Underwriting Services Limited. These distribute Professional Indemnity, Employers' and Public Liability and Tax Enquiry and Liability insurance to the UK small contractor market via Qdos Shop, an online digital distribution platform.

HCCI Credit Services Limited

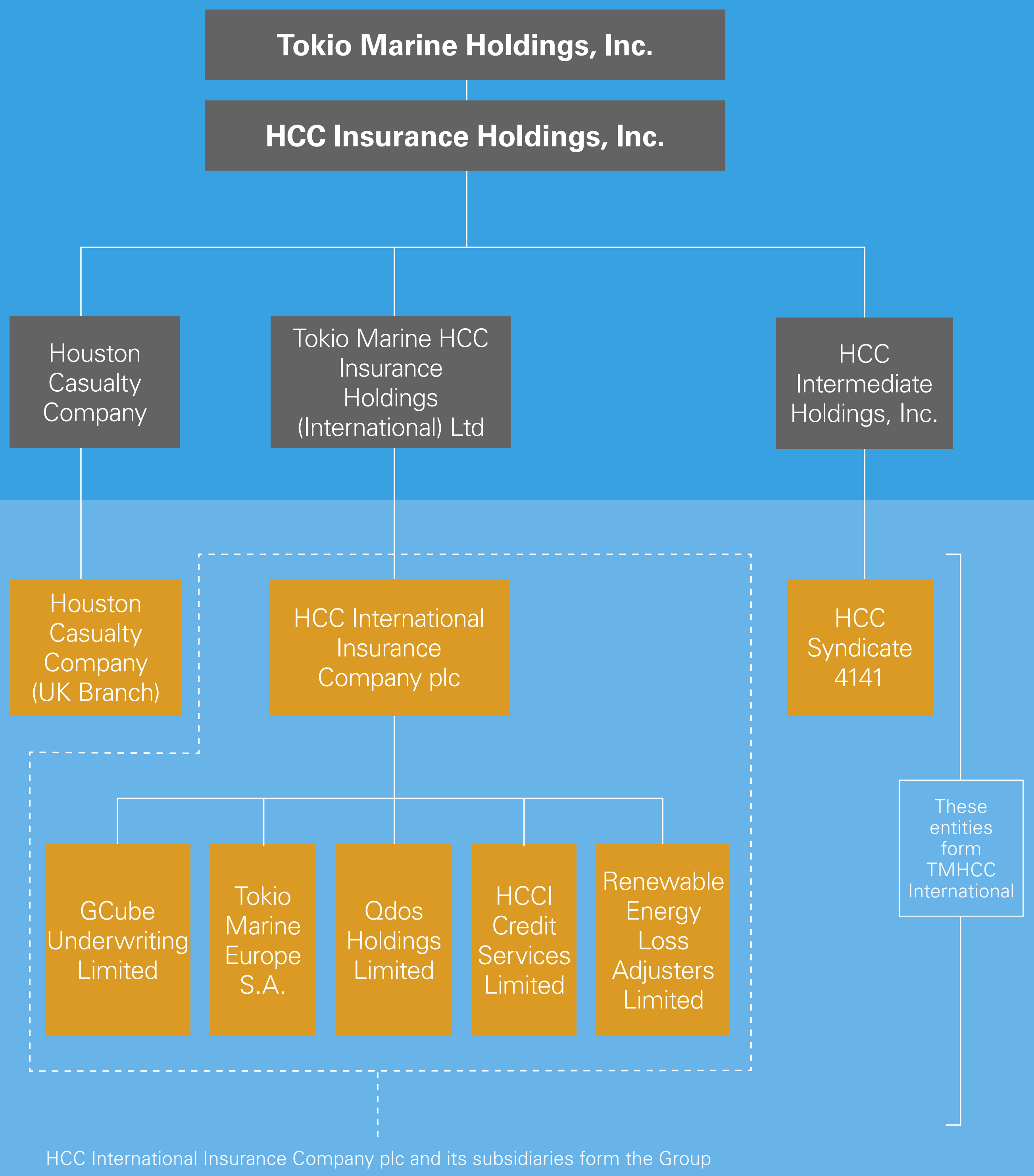
Provides data and information services and procurement of other services integral to the underwriting of several products within the International Specialty business.

During 2023, the Group conducted business in the UK and Europe through:

HCCII → Principal offices in London, its regional offices across the UK and its branch in Switzerland.

TME → Branches in Spain, Ireland, France, Germany, Italy, Denmark, Belgium, Norway, the Netherlands and the UK.

The results of the Group are included within these consolidated financial statements for the year ended 31 December 2023.



Information as at 31 December 2023.
This simplified structure chart shows ownership information for the principal operating entities within TMHCC International.

Geographical footprint

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

*** 3 offices

Strategy

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

Strategic objectives

MAINTAIN A
DIVERSIFIED PORTFOLIO
OF NON-CORRELATING BUSINESSES.

MAINTAIN
MANAGEMENT, ORGANISATIONAL AND GOVERNANCE STRUCTURES
THAT ARE APPROPRIATE FOR, AND SUPPORT, THE GROUP'S GROWING BUSINESS.

ENSURE **SUSTAINABLE GROWTH** THROUGH

EXPANSION
of the Group's brand throughout the UK regional market, the London market and the rest of Europe.

IDENTIFICATION AND DEVELOPMENT
of opportunities to promote growth through acquisition or establishing new lines of business.

The Group has consistently delivered its strategic plan as a result of the following **key strengths**

Diversified portfolio of specialty business

The Group achieves a balanced portfolio by underwriting non-correlating short and long tail accounts that cover different products, geographies and client sizes, which differentiates the Group from competitors in product offering, customer service or market positioning. This results in a diverse and balanced portfolio of risks across different lines of business, which limits volatility and enables the Group to consistently achieve an underwriting profit that increases shareholder value.

Operational efficiency

TMHCC International manages its portfolio by line of business through a single integrated operating model. This provides operational efficiencies across TMHCC International, which benefits the Group.

Culture and values

The Group operates globally, and its success and continued growth depend on its 'Good Company' culture (see page 28 for further details) and shared values of professionalism, discipline, honesty, respect and trust.

Skilled and entrepreneurial management

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

Strategic initiatives

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

In recent years, the Group has experienced significant growth, having acquired new companies and underwriting teams and established new lines of business alongside organic growth. The Group has successfully embedded these businesses and underwriting teams within the Group's operating model, positioning it to continue to leverage market opportunities more quickly and flexibly than its competitors.

The Group has also continued to evolve its operating model to ensure it aligns with the Group's long-term strategy and business model.

During 2023, TMHCC International continued to strengthen its underwriting and operational functions, strengthening roles that report to the Executive team, including:

- establishment of the Office of the Group Chief Operating Officer (GCOO) and the promotion of the Chief Information Officer to the role of GCOO, a member of the Executive team with overall responsibility for IT, Transformation, Enterprise Change, Data, Claims and Underwriting Operations
- appointment of a new Chief Underwriting Officer (CUO) for Marine, Energy and Renewables to lead the Marine, Energy and Renewables classes of business within the London Market segment
- establishment of the London Market Office, which provides underwriting, operational and change support to the Chief Underwriting Officer – London Market, enabling the execution and delivery of the London Market underwriting strategy

These changes provide further support to the Executive team, strengthen the Group's medium to long-term succession planning and ensure continued delivery of the Group's strategic objectives and operating model, while maintaining a flat management structure and operational flexibility. The Group will continue to focus on hiring the right talent and developing leadership skills consistent with the growth of the business.

Business model

Purpose

TMHCC International's purpose is to deliver risk solutions to its clients that provide continuity in times of business disruption. Delivering highly specialised, quality underwriting with clearly articulated and transparent products will inspire the trust and confidence of its clients. TMHCC International applies Tokio Marine's 'Good Company' approach to business through skilful and sustainable reinsurance purchasing, careful investment of premiums, conservative reserving, and fair and efficient claims handling.

Generating value

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

Financial Capital

The Group has a strong balance sheet; its capital is well in excess of regulatory requirements; and HCCII and TME both have a financial strength rating of A+ from S&P. This rating is equivalent to the rating of the Group's ultimate parent company, Tokio Marine, as S&P views HCC Insurance Holdings, Inc. and its subsidiaries to be core to Tokio Marine. The Group's financial performance (detailed in the Business Performance section on pages 18 to 27) consistently generates value for its shareholders.

Employees and Intellectual Capital

The Group recognises that throughout all areas of the business it needs to attract and retain highly skilled, disciplined and experienced individuals of exceptional quality who thrive in a constantly changing environment. From this strong foundation, Group leadership can empower its team to provide Specialty Insurance solutions that consider the impacts of climate change, technological disruption and other issues that may adversely affect clients. The actions the Group takes to manage, sustain and develop its employees are detailed in the People section on pages 34 and 35.

Financial Capital

Employees and Intellectual Capital

Stakeholders

Data and Technology

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 51 to 56.

Data and Technology

Data is a key asset which supports the delivery of the Group's strategic objectives, and a data governance framework has been established to ensure data is appropriately managed throughout its lifecycle and supports the business and its operations. The Group's technology solutions support the business to generate value, and include catastrophe modelling and aggregation tools; e-distribution portals for its products; capital modelling tools; policy and claims administration systems; and IT security software to increase its IT resilience.

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

Face risk with confidence

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

Distribution network

Providing clients with products through established distribution relationships

Reserves

Maintain at or above the actuarial midpoint

Underwriting and managing risk

Disciplined underwriting, careful risk selection and risk reinsurance

Claims management

Treating customers fairly, timely processing and settling of claims

Investment

Preserve and grow shareholders' equity through a conservative investment strategy

Fundamental principles

Face risk with confidence

The Group's core business is underwriting specialty lines of insurance. The Group has three core underwriting segments: International Specialty; London Market; and Japanese (J) Business. More details are provided on pages 20 and 21.

The underwriting segments offer products in the UK from HCCII's London and regional offices; and in the European Union through TME. The Group accepts global inwards reinsurance risks where its licences permit. The majority of the businesses that the International Specialty, London Market and J Business underwrite are commercial lines, although personal lines business is also written within these segments.

Providing clients with products through the distribution network

International Specialty, London Market and J Business products are distributed to clients through established relationships with brokers (wholesale, regional and specialty), underwriting agencies and coverholders. Additionally, certain International Specialty and London Market business is underwritten through online distribution portals.

Underwriting and managing risk

Careful risk selection and reinsurance purchasing is central to the Group's culture and is the foundation for its growth by ensuring it meets or exceeds its target risk-adjusted return. The Group's experienced technical underwriters assess a range of factors when underwriting risks, including but not limited to financial exposure, loss history, risk characteristics, limits, deductibles, terms and conditions, and acquisition expenses – using rating and other models. The Group also delegates underwriting where distribution is held by coverholders or brokers. However, this is through standard rating sheets and referral controls for risks that require non-standard pricing.

Reserves

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

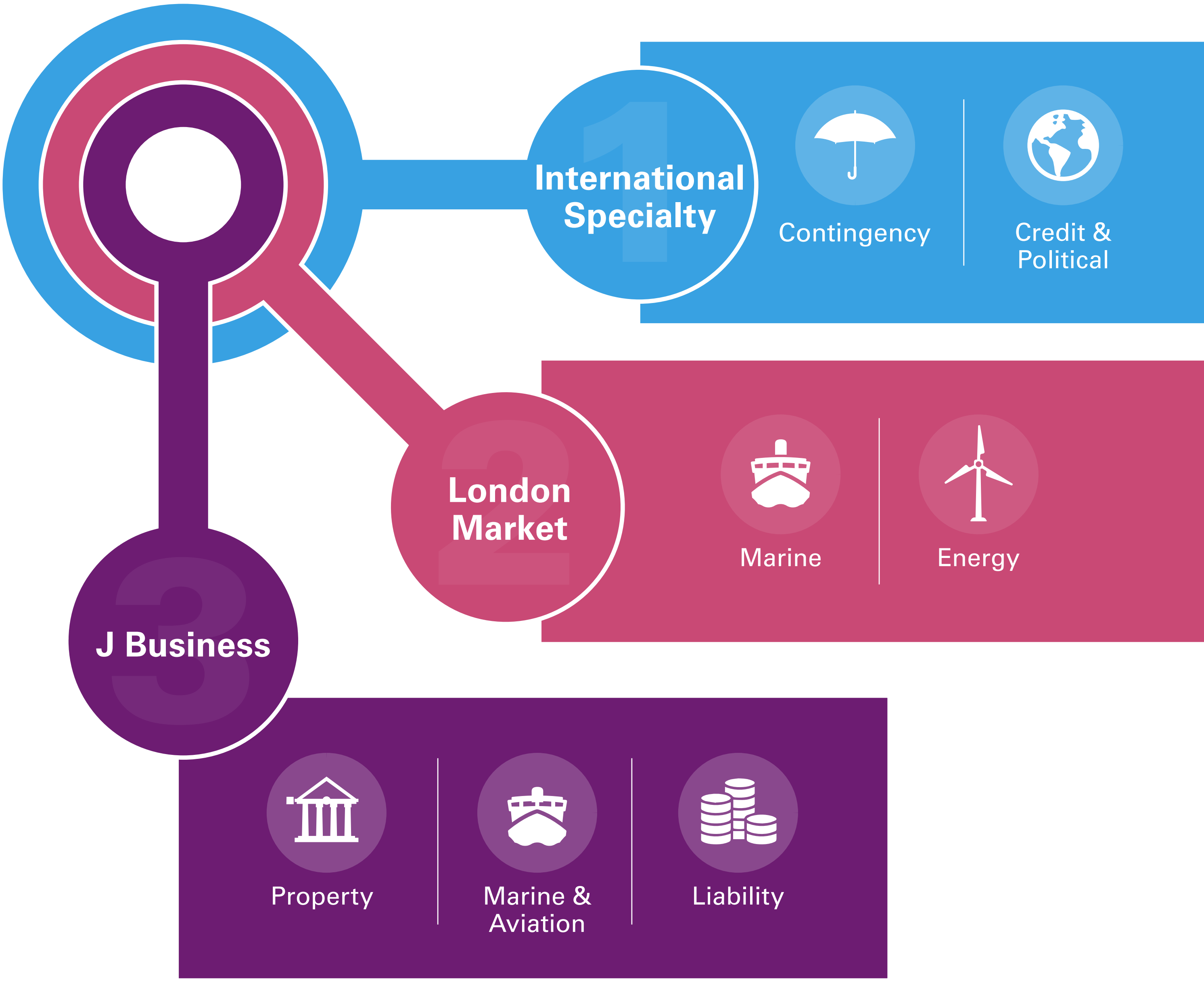
Investment

The Group has a conservative investment strategy. It invests funds 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; adequately diversified; and broadly match the Group's liabilities.

Claims management

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

The Group has three core underwriting segments:



Credit

Liability

Cyber

Directors & Officers

Transactional Risk

Professional Indemnity

Surety

Renewables

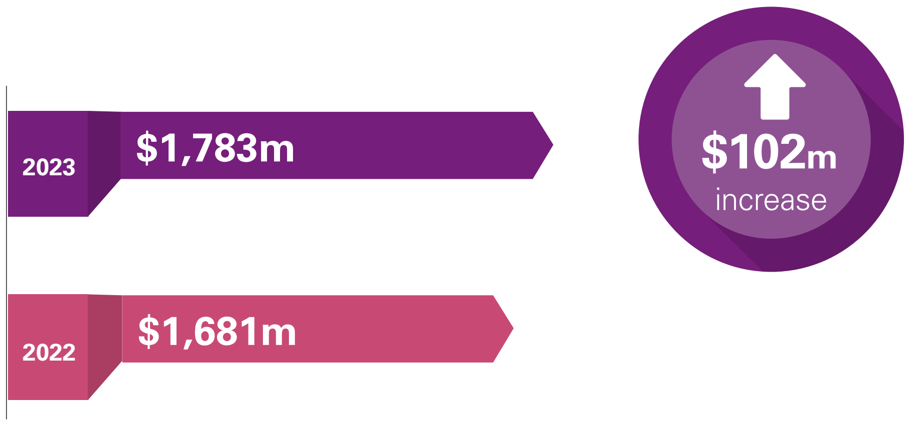
Property

Accident & Health

Reinsurance

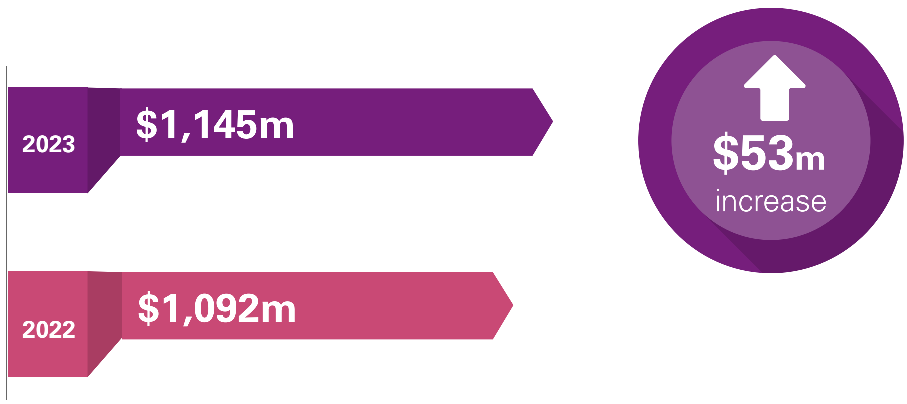
Financial key performance indicators (KPIs)

GROSS WRITTEN PREMIUMS



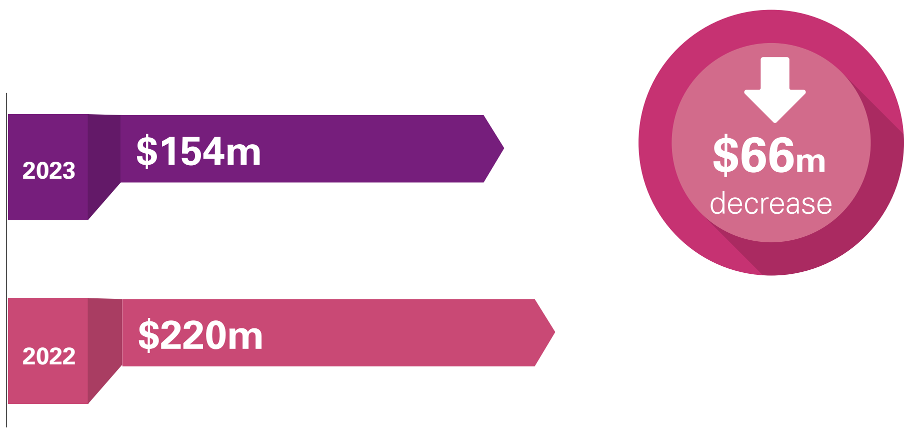
NET PREMIUMS WRITTEN

Net of reinsurance.



UNDERWRITING RESULT

Balance on technical account (before investment income).



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NET LOSS RATIO

Ratio of net incurred claims to net earned premiums.

2023 50.7%

2022 48.2%

NET COMBINED RATIO

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

2023 86.1%

2022 79.8%

INVESTMENT INCOME

Earned investment income transferred from the non-technical account.

2023 $55m

2022 $35m

CASH AND INVESTMENTS

Excluding investment in subsidiaries and land and buildings.

2023 $2,572m

2022 $2,105m

$467m increase

CONSOLIDATED SHAREHOLDERS' FUNDS

2023 $1,192m

2022 $999m

$193m increase

Business Performance and Position

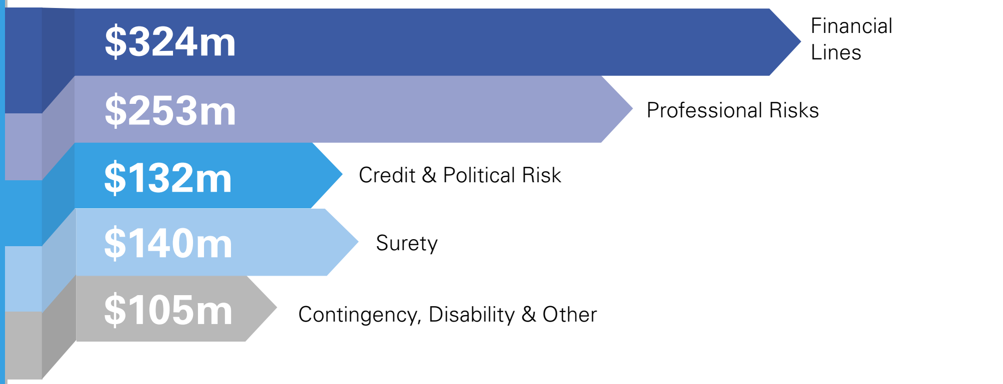
Underwriting segments

International Specialty

The International Specialty lines of business comprise:

- Financial Lines
- Professional Risks
- Credit & Political Risk
- Surety
- Contingency, Disability & Other

Gross Written Premium mix

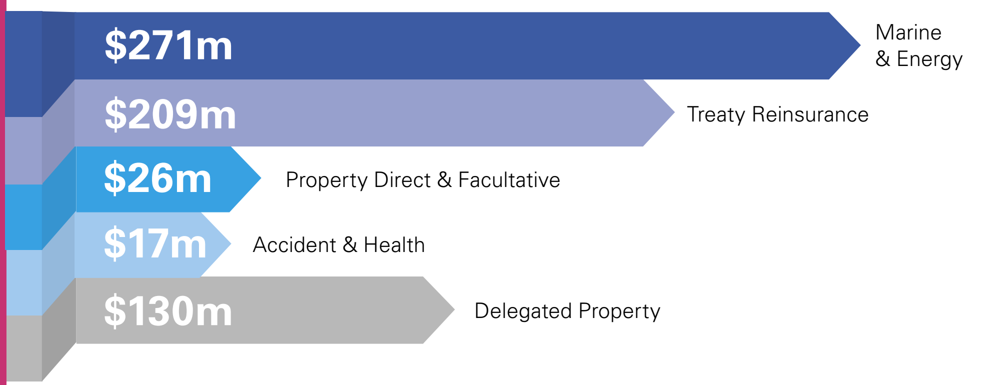


London Market

The London Market segment includes the following lines of business:

- Marine & Energy
- Treaty Reinsurance
- Property Direct & Facultative
- Accident & Health
- Delegated Property

Gross Written Premium mix



J Business

The J Business segment consists of commercial insurance coverage provided to Japanese corporate clients in respect of their overseas business interests:

- J Business Property
- J Business Marine & Aviation
- J Business Liability

Gross Written Premium mix

Gross Written Premium
$954 million
(2022: $938 million)

2%

Underwriting result[1]
$92 million
(2022: $126 million)

27%

Net combined ratio
86%
(2022: 82%)

[1] Underwriting result excludes exited lines and other

Gross Written Premium
$653 million
(2022: $581 million)

12%

Underwriting result[1]
$66 million
(2022: $95 million)

30%

Net combined ratio
86%
(2022: 77%)

[1] Underwriting result excludes exited lines and other

Gross Written Premium
$176 million
(2022: $163 million)

8%

Underwriting result[1]
$7 million
(2022: $9 million)

25%

[1] Underwriting result excludes exited lines and other

Results and performance

Gross Written Premium (GWP) totalled $1.8 billion, up 6% ($102 million). This reflects growth in the underlying portfolio, particularly London Market (up 12.4%) with market conditions more variable in International Specialty (up 1.7%). Growth in London Market is a result of the improved rating environment in Treaty Reinsurance, as well as Marine Liability, Energy and Delegated Property, which benefitted from strong renewals and new business from positive market conditions. International Specialty has had growth in Professional Risks and Surety due to ongoing strong rating environments and market conditions. Contingency and Disability continue to perform well post COVID-19. These positive factors in International Specialty have been largely offset by the impact on Gross Written Premium of challenging market conditions in the Financial Lines portfolio.

The underwriting result on the technical account excluding investment income was $154 million (2022: $220 million), resulting in a combined ratio of 86.1% (2022: 79.8%), with strong profits from both the International Specialty and London Market segments. The decrease from 2022 was largely driven by several large Surety losses and higher reinsurance costs coupled with some reserve strengthening in the London Market segment. Additionally, the Group has continued to invest in its people and infrastructure to support current and future growth.

In the London Market segment, the 2023 technical result was $66 million (2022: $95 million). Results were impacted by higher reinsurance costs and reserve strengthening, against a backdrop of benign loss activity and prior year reserve releases in 2022. Although the topline grew, principally due to the favourable rating environment for Treaty Reinsurance

business, TMHCC International took advantage of the considerable market opportunities in the US, resulting in significant top line growth and profitability on other TMHCC International platforms.

In the International Specialty segment, the 2023 technical result was $92 million (2022: $126 million). The reduction in the result reflects the flat top line growth, several large Surety losses and challenging market conditions in Financial Lines, partially offset by Professional Risks outperforming expectations in both top line growth and loss experience.

In 2023, the J Business segment contributed $7 million (2022: $9 million) to the technical result. Given the nature and complexity of the J Business and its importance to the larger global portfolio, the business is fully ceded within Tokio Marine to Tokio Marine & Nichido Fire. The contribution to the technical result represents the ceding commission, which is set to achieve moderate profit for the Group and covers the acquisition and operating costs of the business.

For the financial year 2023, the Group made a net profit before tax of $254 million (2022: $10 million loss) of which $209 million (2022: $255 million profit) was from the technical account for general business which included investment income of $55 million (2022: $35 million). The investment return contributed significant volatility to the Group's results compared with the prior year, due to the movement in unrealised gains/losses consistent with market conditions and the US interest rate environment.

In 2023, unrealised gains on the Group's fixed income portfolio totalled $79 million (2022: $234 million unrealised loss) consistent with performance of the bond markets. The Group's investment approach is to hold investments to maturity which will result in a reversal of unrealised losses and gains over time. FX losses totalled $7 million (2022: $7 million). The non-technical account items also included amortisation of goodwill and intangible assets totalling $11 million (2022: $10 million) and other operating expenses.

Investment income transferred to the technical account was $55 million (2022: $35 million). The increase in investment income is a result of the reinvestment of bonds at higher yields. The earned investment income (net of investment expense) reflects the Group's conservative investment policy. The Group's solid operating cash flow and robust capital position supports the approach to hold to maturity over one of managing total yield inclusive of unrealised gains and losses.

Overall, the Directors are satisfied with the Group's operations and its financial position as at 31 December 2023.

Gross Written Premium

2023 GWP increased 6% ($102 million) to $1,783 million (2022: $1,681 million). This was driven by improved market conditions on existing business lines – most notably across the London Market sub-segment.

The significant growth in the Group's GWP from 2018 to 2023 is illustrated below.

The foreign exchange effect of GWP is shown in the table below

	2023	2022	Increase/(decrease)	
	$'m	$'m	$'m	% change
Financial Lines	323.9	363.4	(39.5)	-10.9%
Professional Risks	253.1	236.7	16.4	6.9%
Credit & Political Risk	132.2	128.9	3.3	2.6%
Surety	139.8	115.3	24.5	21.2%
Contingency, Disability & Other	105.1	93.4	11.7	12.5%
Total Specialty	**954.1**	**937.7**	**16.4**	**1.7%**
Marine & Energy	271.1	270.8	0.3	-0.1%
Treaty Reinsurance	208.8	146.2	62.6	42.8%
Property Direct & Facultative	26.2	28.2	(2.0)	-7.1%
Accident & Health	130.4	120.6	9.8	8.1%
Delegated Property	16.6	15.2	1.4	9.2%
Total London Market	**653.1**	**581.0**	**72.1**	**12.4%**
J Business	**176.1**	**162.6**	13.5	**8.3%**
Total	**1,783.3**	**1,681.3**	**102.0**	**6.1%**

Business Performance and Position

Specialty

Financial Lines

GWP decreased by 10.9%, continuing the trend we began to see in the second half of 2022. Our Transaction Risk Insurance business has been impacted by the dampened M&A market as a result of ongoing global instability and our Cyber business by intensifying market competition. The Group has maintained a conservative underwriting approach and discipline in this challenging market.

Professional Risks

GWP increased by 6.9%. The business includes two main product lines – Professional Indemnity and Liability – growth has slowed from previous years as we approach a market saturation point in the UK.

Credit & Political Risk

GWP increased by 2.6%. The Group offers a full range of Credit & Political Risk insurance solutions both for financial institutions and commercial companies. The Trade Credit team is one of the leading credit insurers in the UK, distinguishing the Group with high service standards in both underwriting and claims handling positions and with high client retention. The UK market continues to be impacted by economic uncertainty and a weak rating environment; however, the Group benefitted from some insureds choosing to renew with two-year policies to take advantage of the weak rating environment. Market conditions in Political Risk remain positive; however, the Group's underwriters continue to exercise caution given the trend of global political instability.

Surety

GWP increased by 21.2%, reflecting the positive ratings environment in the wake of significant market loss experience.

Contingency, Disability & Other

GWP increased by 12.5%. The contingency book had significant recovery following the impact of COVID-19 and continues to demonstrate strong renewals alongside a strong ratings environment. Other comprises a portfolio of Marine Transport business and Kidnap and Ransom business.

London Market

Marine & Energy

GWP remained flat and comprises Energy, Marine Hull, Marine Liability and Marine Cargo. Rating conditions have been positive with the exception of GCube as a result of increased competition in the renewable energy market.

Treaty Reinsurance

GWP increased by 42.8%. This portfolio comprises principally non-US excess of loss reinsurance business. Top line growth has been driven by significant rating environment improvements following CAT experience in recent years. We have responded to this by deploying more capital to take advantage of the favourable market conditions, with significant capital deployed in the US, leveraging TMHCCI's other insurance platforms.

Property Direct & Facultative

GWP decreased by 7.1% driven by choice of paper, with significant growth in this line seen in our other insurance platforms.

Accident & Health

GWP increased by 8.1%. The portfolio continues to maintain market-leading profitability due to disciplined underwriting and realistic growth expectations, with the increase in premium following a number of key renewals reflecting this disciplined underwriting approach.

Delegated Property

GWP increased by 9.2%, reflecting a stabilisation in this relatively new line of business following significant growth in recent years.

J Business

GWP increased by 8.3%. The segment consists of commercial insurance coverage provided to Japanese corporate clients in respect of their overseas business interests. The increase in premium of $13.5 million in the year reflects a combination of rate increases at renewal and higher sum insured values.

Investment performance

New England Asset Management is the investment manager for the US Dollar, Sterling, Euro and Swiss Franc funds, which consist primarily of a portfolio of highly rated corporate and municipal bonds, that have an average rating of A+ and do not include any securities with less than a BB rating. The portfolio also includes bonds guaranteed by the US, UK and German governments. The average duration of the aggregate portfolios was 4.0 years (2022: 4.3 years). Delphi Financial Group, Inc. (Delphi), an investment manager within the Tokio Marine group of companies, manages the alternative investment class, which comprises 4% of the Group's consolidated invested assets as at 31 December 2023 (2022: 4%).

Earned investment income (excluding the unrealised gains and losses) totalled $55 million (2022: $35 million).

As of 31 December 2023, the fair market value of the investment portfolio generated unrealised gains of $115 million 2022: $234 million, upon which there were foreign exchange gains on non-USD bonds of $36 million (2022: $4 million). This resulted in total unrealised gains of $151 million for the year (2022: $230 million), principally driven by improving leading global economies and predictions regarding rate cuts in 2024.

Balance sheet

The balance sheet of the Group shows total assets of $5.00 billion (2022: $4.35 billion) and shareholders' equity of $1.19 billion (2022: $1.00 billion). Of the total assets, $2.57 billion, 51.4% (2022: $2.11 billion, 48.5%) was represented by financial investments and cash at bank with the partial reversal of unrealised losses from the prior year being a significant driver of the increase in financial assets. Net technical liabilities from insurance contracts were $1.89 billion (2022: $1.56 billion).

As at 31 December 2023, the solvency coverage ratio remains strong at 144% (2022: 145%). The business continued to generate capital through operations; however, this was offset by increased capital requirements to fund business growth.

The vision

The Group shares Tokio Marine's **Good Company** vision.

Good Company

Look beyond profit
We act with integrity for the benefit of our customers, business partners and society

Empower our people
We inspire engagement and passion in all of our employees

Deliver on commitments
We achieve high-quality results by enhancing stakeholder trust

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

The Group is committed to fulfilling its obligations as a global insurer to support a sustainable future through the development / adoption of appropriate products and services. Being well-run, contributing to a resilient society, and promoting and supporting diversity and inclusion are also essential both to the Group's success and the creation of sustainable value for all stakeholders.

To support the Good Company approach to being a sustainable and responsible business, the Group has a sustainability governance structure (illustrated below) that covers a wide range of Environmental, Social and Corporate Governance (ESG) issues relevant to its business and stakeholders.

TMHCC International's approach to sustainability covers the following four pillars

Charity and community

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

Workplace

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

Business conduct and ethics

Conducting business:

- ethically
- honestly
- responsibly.

Climate risk

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

Charity and community

The Group strives to be a Good Company. One of the **core principles of this vision is acting for the benefit of society and the communities in which the Group operates.** The aims of the Group's Charity Strategy are to:

- support causes where a positive and measurable difference can be made within local communities
- generate a charitable culture across the Group through employee engagement in charitable activities and initiatives, including volunteering and fundraising
- operate as a Good Company

To deliver its Charity Strategy, the Group established Charity Committees in the UK and Europe that provide support through:

- a programme of activities and initiatives to educate and inspire employees to create positive change
- support of employees' charitable efforts – either by allowing additional time off (each employee is allowed two volunteer days per annum) or by contributing towards charitable fundraising undertaken by employees
- formation of multi-year charity partnerships that provide annual financial contributions to chosen charities – employees are encouraged to be actively involved with charity partners through fundraising, volunteering, raising awareness and educational activities.

Aligned with the Group's approach to sustainability, the annual charity programme of events and initiatives is designed around four pillars:

- Community Development
- Diversity & Inclusion
- Health & Wellbeing
- Environmental Impact

In 2023

The Group donated over	Employee fund-raised	Total charitable giving
$631k	**$73.2k**	**$704.2k**
(2022: $553k)	(2022: $72.4k)	(2022: $625.4k)

To support charitable groups and employee fundraising initiatives.

Volunteering

In 2023, the Group doubled the number of employees engaged in volunteering compared with 2022. Over 300 employees used their volunteering days to support charities across a range of projects including removing microplastics from waterways, giving young people an insight into the world of work, and interacting with older people to reduce social isolation. Employee volunteering fosters collaboration and boosts morale and teamwork while providing valuable manpower, skills and resources to the charities the Group and its employees' support.

A global response

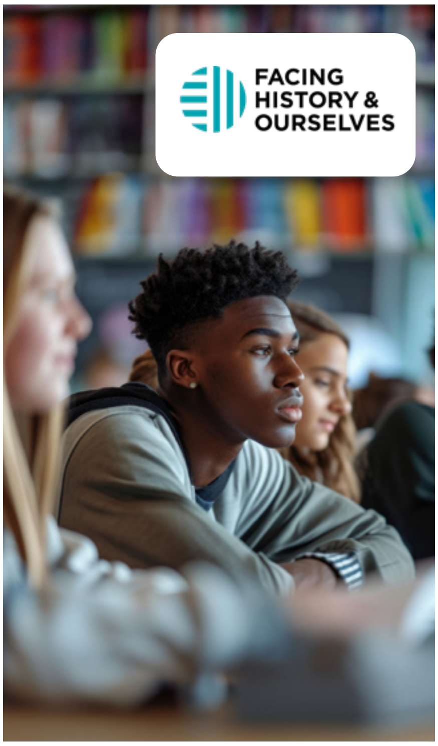
While the Group's Charity Strategy focuses on supporting local charities in the communities that we operate in, it also recognises that employees may be affected by global events such as natural disasters and conflicts. In 2023, the Group organised fundraisers for the Turkey Syria earthquake, Hawaii wildfires, Morocco earthquake and Libya floods. Donations were matched by the Group to maximise the impact of employees' generosity.

In response to the Israel–Hamas War, the Group provided funding to one of its charity partners, Facing History & Ourselves, enabling it to create resources for teachers and students to help support discussion and understanding of the conflict.

Charity partnerships

The Group formally supports 19 charity partners across the UK and Europe that are aligned with the Group's Charity Strategy, providing annual donations and supporting them to deliver impactful initiatives.

Below are some examples of how, by working together with its charity partners, the Group has made a difference in 2023.



HEALTH AND WELLBEING

Rainbows (UK)

Rainbows supports families with babies and children with a serious or terminal illness. In 2023, Rainbows took part in the Group's Pick A Project initiative and around 400 employees voted to fund Rainbows' Nurses in Hospitals, enabling Rainbows to provide additional care for critically ill babies and children in hospitals throughout the East Midlands.

COMMUNITY DEVELOPMENT

Hestia (UK)

Community Development
Hestia provides critical refuge and support to vulnerable victims of domestic abuse in the UK, giving a lifeline to women and children in dangerous situations. The charity offers a safe space, with housing, counselling, legal aid and help securing new schools, so that victims can recover from the trauma and rebuild their lives. In 2023, employees volunteered and decorated six domestic abuse refuges for Christmas, transforming them into havens of warmth and festivity for the women and children who live there.

DIVERSITY AND INCLUSION

Facing History & Ourselves (UK)

Facing History & Ourselves engages young people with challenging content through a process that builds the knowledge, skills and character for civic learning. FHAO celebrates diversity and invests in equitable and inclusive education and practices. In 2023, it piloted Facing History @ Work with the Group and its employees who engaged with students in a classroom session focused on identity and critical thinking.

Looking ahead, the Group aims to continue to deliver impactful initiatives in line with its charity programme during 2024 and to continue to work with its charity partners to make a difference to its local communities.

ENVIRONMENTAL IMPACT

Trees for Cities (UK)

Trees for Cities improves lives by revitalising forgotten spaces, creating healthier environments, and getting people excited about growing, foraging and eating healthy food. In 2023, the Group contributed to its Trees for Streets campaign, planting 25 trees in urban areas of London to absorb carbon, filter the air, provide food and shelter for wildlife and help tackle climate change.

COMMUNITY DEVELOPMENT

The Insight Project (Luxembourg)

The Insight Project supports the most vulnerable people in Luxembourg and works to identify and prevent eventual situations of human trafficking. Employees took part in its #WalkForFreedom event to raise awareness of the lives affected by human trafficking in Luxembourg and around the world.

HEALTH AND WELLBEING

Nexe Fundació (Spain)

Nexe Fundació is an organisation that has been working for 40 years to improve the quality of life of children with disabilities and their families. Employees in Spain raised additional money for Nexe Fundació through the Give An Hour scheme, allowing the charity to further meet the needs of children and their families by promoting their autonomy and socialisation.

People

TMHCC International has 1,337 employees, with 980 in the UK and 357 based across 10 European branches. The employee base continues to increase to support sustained growth.

Values and vision

Tokio Marine's corporate vision is to be a Good Company that encompasses the values it aims to represent, including Collaboration, Look Beyond Profit, Empower Our People and Deliver on Commitments. The Group incorporates this overarching vision into its culture and values.

Developing and engaging people

Our people are our most valuable asset, and we are committed to supporting their growth and development. By investing in employees, the Group creates a foundation for the long-term success of it and its people.

The Group supports its employees' development through career growth opportunities, providing knowledge through experience and through availability of relevant training. The Group's US parent company has established corporate programmes such as Leadership Excellence and Development, Elevating Women in Leadership, and Accelerate which is a development programme designed for those in early careers in underwriting and claims. In addition, our Foundations In Leadership Programme enables talented people managers to prosper and become future leaders of the business.

Diversity and Inclusion

Diversity and Inclusion (D&I) is important to the Group as we aim to foster an inclusive culture and sense of community and belonging.

The Workplace Group forms part of TMHCC International's Sustainability Strategy, which is fundamental to the Good Company vision. The Workplace Group identifies areas of development or improvement in relation to D&I, wellbeing, and learning and development. In 2023, the focus of the Workplace Group in relation to D&I was:

- to continue to raise awareness of D&I
- to understand the employee demographic
- to create and maintain an inclusive workplace.

During 2023, the Group celebrated a number of global and national awareness campaigns, including International Women's Day, LGBTQ+ History Month, Pride, Stress Awareness Month, Mental Health Awareness Week, Fertility Awareness Week, International Men's Day and the Dive In Festival for D&I in insurance. The Group also promoted a diversity week to raise awareness about diversity and to introduce employee Communities and Networks.

As part of our ongoing commitment to being an inclusive workplace, the Group partnered with Fertility Matters at Work (FMAW), an organisation dedicated to improving fertility support within the workplace, to ensure that we have the right educational tools and policies in place to assist our employees.

A subgroup of the Workplace Group is looking at how we can best encourage young people to consider a career in insurance and how we ensure that we provide opportunities for young people from socially diverse backgrounds. The Social Mobility Programme is a sustainable school to workplace programme that creates opportunities for a new generation to flourish in the insurance industry, enabling TMHCC International to be a market leader in fostering talent and responding to the evolving eco, socio and political world. We will begin our schools outreach programme and launch a work experience programme in Summer 2024.

1,337
EMPLOYEES

980
in the UK

The Group launched employee demographic data collection encouraging employees to provide their demographic data using the new HR system. This data will enable us to ensure our D&I strategy and actions are relevant and relate to the needs of our employees and that our people-related policies and processes are effective. The Group continues to encourage employee participation in completing the demographic data and the response rate is gradually increasing.

Health and wellbeing

During 2023, the Group rebranded and publicised via roadshows, its employee benefits package under the banner of Thrive which categorises the benefits we offer under four pillars: Body, Mind, Finance and Life. The purpose of Thrive is to increase employees' awareness of the benefits available to them.

Also in 2023, the Group published its Mental Health Policy in support of our commitment to promote a culture of good mental health and wellbeing for all employees and to highlight the support available to anyone who may be experiencing mental health issues. A total of 43 Mental Health First Aiders were trained in 2023. They act as a point of contact and support for employees experiencing mental health challenges or emotional distress. The Mental Health First Aiders meet regularly to discuss and action ideas to support wellbeing in the workplace.

367 based across

10 European branches

Good Company Approach

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 and compliance monitoring.

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

Conduct

At the core of the Group's approach to responsible business is ensuring that all policyholders receive good customer outcomes throughout the product life cycle and that no detriment is caused to the Group or its customers, clients or counterparties because of the inappropriate execution of its business activities. Through the governance structure, the Board communicates this ethos to all employees, with a specific committee responsible for oversight of conduct, product governance and distribution throughout the business. Conduct risk, Consumer Duty and vulnerable customer training modules are also provided to employees working in the Underwriting, Claims, Compliance, Internal Audit, Marketing and Risk departments, as well as Executive and Non-Executive Directors.

Throughout 2023, the Group continued to undertake the following activities: reviews of all new products; customer advocate reviews of wordings; comprehensive due diligence on all third parties prior to engagement and audits undertaken thereafter; assessment of product risk ratings and continual monitoring of the highest-rated products using detailed management information to ensure fair and reasonable customer outcomes; and compliance monitoring on licensing, sanctions and financial crime practices. These 'business-as-usual' activities were supplemented by implementation of a Consumer Duty project during 2023 to ensure compliance with regulatory requirements. As a result of this project, the Group also continued to monitor the performance of its products to ensure they operated fairly and as intended, adopting a new automated approach to completion of a full Fair Value Assessment of all products.

During 2023, the Group reviewed its Product Governance and Distribution structure and has supplemented its existing structure with the appointment of a Consumer Duty Champion in line with its regulatory obligations and focus on delivering good customer outcomes.

Complaints

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

There are effective and transparent procedures in place concerning the handling of complaints, to ensure their proper investigation and appropriate resolution. The Group further facilitates its complaint handling through the use of a purpose-built complaints management software application. The complaints procedure outlines the agreed process to ensure complaints are identified and resolved in accordance with regulatory expectations.

The Group monitors complaints received across all lines of business using detailed management information to ensure fair customer outcomes. Among a number of indicators, the management information monitors the volume of complaints, complaint outcomes and any findings arising from referrals to the Financial Ombudsman Service in the UK and equivalent external dispute resolution schemes available to policyholders located in territories outside of the UK in the event that a complainant disagrees with a decision taken by the Group in respect of a complaint. These metrics are reported as part of the non-financial KPIs – see page 40.

Sanctions

The Group is subject to UK and European sanctions and is considered to be a US person for all US Treasury Department and Office of Foreign Assets Control (OFAC)-administered sanctions. To ensure the Group avoids writing business with exposure or potential exposure to sanctions targets, the International Compliance Department ensures all relevant employees within the business have sanctions awareness. This is achieved through the provision of e-training, ad hoc updates, and now face-to-face training.

The Group also runs real-time and batch screening that is designed to identify possible matches between potential insureds or claimants and listed sanctions targets. The results of these tests are reported as part of the non-financial KPIs – see page 40.

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 International Compliance Department undertakes a monthly review to ensure adherence to licensing requirements, and the results of these reviews are provided as part of the non-financial KPIs – see page 40.

Anti-bribery and corruption

The Group has zero tolerance for bribery or corruption. The Anti-Bribery Policy details definitions of bribery and corruption 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 makes sure employees know how to assess, manage and record conflicts of interest. Certain employees and Board members are also required to complete an annual declaration regarding conflicts of interest.

All business that would expose the Group to any parties domiciled in countries that exhibit a high corruption risk (countries with a score of 20% or less on the Transparency International Corruption Perceptions Index (CPI)) requires an enhanced due diligence review and approval from a member of the Executive team prior to inception. Receipt of approval is monitored by the International Compliance Department.

Money laundering and financial crime

Any business that would expose the Group to parties domiciled in countries exhibiting a high money laundering risk (countries with a risk score of 7.5 or more (out of 10) on the Basel AML Index and those that are watch-listed by the Financial Action Task Force (FATF)) requires an enhanced due diligence review and Executive approval prior to inception. Receipt of this approval is monitored by the International Compliance Department.

The Group 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 International Compliance Department monthly. It involves analysis of all returned premiums up to two months after policy inception that are above a certain, line-specific percentage of original premiums. To obtain similar confidence that claims have not been engineered for money laundering, the International Compliance Department similarly analyses all claims made within seven days of policy inception.

In addition to the standard controls in place, the International Compliance Department performs an annual internal Financial Crime Risk Assessment covering the following areas: bribery, corruption, money laundering, financial crime, sanctions and whistleblowing. The most recent was undertaken in Q4 2022, and the analysis performed and findings arising from this exercise informed the Financial Crime Controls project that was initiated during 2023.

From a governance perspective, it should be noted that the Money Laundering Reporting Officer provides bi-annual reports to the Board, while formal updates on financial crime are also given to multiple Board committees, including the Executive Underwriting Monitoring Committees and the Risk, Capital and Compliance Committee.

The results of the Group's money-laundering controls are set out as part of the non-financial KPIs – see page 40.

Procurement, outsourcing and working with third parties

The Group's responsible approach to business extends to procurement, outsourcing and third parties. 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 them.

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 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 its website.

Whistleblowing

The Group's Whistleblowing Policy follows accepted best practice and regulatory requirements, has been specifically emphasised in communications by the Executive team and is centrally accessible to employees via the intranet. It outlines the procedures and processes for when and how to speak up about wrongdoing within the organisation. An individual can raise a concern internally or externally (for example, in the UK via the Prudential Regulation Authority (PRA), via the Financial Conduct Authority (FCA) or using the Lloyd's confidential hotline) or via an externally provided confidential hotline. The Non-Executive Chairman of HCCII's Audit Committee has been appointed Whistleblowing Champion, and reports have been provided to the Group's Audit Committee on the whistleblowing arrangements.

The Compliance category within TMHCC International's 2023 Culture and Values Survey continued to score highly, reflecting a workforce that are fully engaged, understand the Group's approach to whistleblowing, and feel confident in their ability to speak up. No whistleblowing concerns were reported through the internal or external channels during 2023.

Data protection

During 2023, the Group continued to 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 Group also further embedded the Data Protection Impact Assessment (DPIA) process – all new projects continue to be subject to scrutiny and require DPIAs to be completed.

There is a dedicated Data Protection Department providing support to the Group. The team continues to work to improve its General Data Protection Regulation (GDPR) processes, particularly in respect of TME, working closely with the TME Data Protection Officer and assisting the embedding of GDPR compliance in Europe. 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 the locations in which it underwrites business.

An effective, operational Data Protection Committee governance structure is in place. The importance that the Group gives to privacy and data protection is evident in its investment in software solutions to manage the challenges arising more efficiently from the increasingly diverse and impactful privacy legislation.

Climate risk

Governance

The Group has a governance structure and processes for identifying, measuring, monitoring, managing and reporting climate-related risks and opportunities across the Group as part of its sustainability governance structure, detailed on pages 58 to 61. The Group's Climate Risk Committee supports the Board and Sustainability Committee to carry out their responsibilities in respect of climate risk. While the Group's sustainability governance structure covers broader sustainability areas, climate-related matters are a key area of focus, and the Climate Risk Committee is responsible for overseeing the identification, measurement and monitoring of physical, transitional and liability risks and opportunities in relation to climate change.

Climate-related risks form part of the roles and responsibilities of Executive and senior management across several key functions, including Enterprise Risk, Finance and Underwriting. Simon Button, Chief Underwriting Officer – London Market, is the appointed Senior Management Function holder in respect of financial risk from climate change. He chairs the Sustainability Committee, and is responsible for ensuring Board and Executive oversight of sustainability issues, which include financial risk from climate change. The Group has established a regular cycle of reporting on climate risk to the Sustainability Committee and Board. Beyond the sustainability governance structure, climate-related issues are considered by the Investment Committee and the Risk, Capital and Compliance Committee, through the ERM framework and at a line of business level.

Strategy

The Group is cognisant of the importance of climate-related risks to its business, clients and other stakeholders. As a result, the Group considers climate-related risks and opportunities in its business decisions including underwriting and exposure management, particularly in relation to physical risks and reinsurance decisions; investment performance, ERM risk framework, policies and processes; and strategic acquisitions, specifically the decision to acquire GCube, the renewable energy Managing General Agency, in 2020.

The Group has a Sustainability Strategy which aims to deliver on the Group's commitment to fulfilling its obligations as a global insurer to support a sustainable future, responding to climate-related risks and opportunities as well as the wider sustainability ESG areas covered by the Group's governance structure (set out on pages 58 to 61).

The Group recognises that climate risk continues to evolve rapidly. The Group continues to identify and monitor climate-related risks and opportunities including new products, and to consider the potential impacts of these on its underwriting and investment activities. It will endeavour to support low carbon transition strategies for both itself and its clients, to reduce the impact on the environment and improve sustainability.

During Q1 2023, the Group concluded its project to identify and map potential climate-related risks and opportunities in its underwriting portfolio and their potential impact on its business. The outputs of the project will be used to further develop the Group's climate risk and business strategies, as well as the development of the Group's risk management and scenario analysis approach related to climate risk, and the establishment of climate risk metrics.

Risk management

The Group has a robust ERM framework (detailed on page 65), which is embedded throughout the organisation, ensuring the right processes and procedures are in place to identify, monitor and mitigate the risks associated with the business and its operations. Climate-related risk was initially identified as part of the Group's emerging risk discussions. However, as the profile of this risk has continued to increase significantly, the Group decided to make sustainability risk (the strategic and operational risks of addressing sustainability concerns, including climate change) a standalone risk while it continues to develop rather than placing it within one of the six principal risk categories. This affords transparency over the management of the risk.

The Group recognises the interaction between the Group's existing risk categories and climate-related risk, as well as the potential impact on its existing risks, such as the change in frequency and severity of extreme weather events including windstorm, flood and earthquake. The lines of business that are exposed to these natural catastrophe events are principally those within the London Market underwriting segment (detailed on pages 20 & 21) and the underwriters continue to develop their understanding of physical risks from climate change.

Physical risk is well managed through the Group's strategy of writing a diverse and balanced portfolio of risks in order to limit the variability of outcomes. This is achieved by accepting a spread of business over time, segmented between different products, geographies and sizes. Annual policies enable the Group to respond to changing weather patterns, and the Group's comprehensive reinsurance programme provides protection against losses from severe weather events. The Group has formally articulated how it assesses climate risk within its risk framework through the development of a climate risk sub-risk register that measures and monitors physical, transitional and liability risks related to climate change and their potential impacts across a range of time horizons. The Group also considers emerging trends relating to climate change as part of its quarterly emerging risk review and annual emerging risk workshops.

The Group's governance structure and ERM framework support delivery of its Strategic Plan, which includes its Sustainability Strategy. In addition to its governance structure and ERM framework, the Group supports the pricing, underwriting and assessment of risks through the use of technology, providing geocoded location data and catastrophe modelling to evaluate catastrophe risk.

Reporting and disclosures

During 2022, and in line with the PRA's expectations set out in Supervisory Statement (SS3/19) Enhancing Banks' and Insurers' Approaches to Managing Financial Risks from Climate Change, the Group continued to develop and align its disclosures with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

The Group continues to report against the ClimateWise principles, which are aligned to the TCFD framework, and for the fourth consecutive year, increased its ClimateWise reporting score compared with the prior reporting period.

Streamlined energy and carbon reporting

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

In line with the UK Government's Streamlined Energy and Carbon Reporting (SECR) framework, the table below shows the Group's UK operational energy and carbon footprint for the financial year ended 31 December 2023 and the comparative data for the financial year ended 31 December 2022.

Streamlined energy and carbon reporting

	2023	2022
Energy consumption used to calculate emissions	kWh 1,298,089	kWh 1,356,055
Emissions from consumption of gas tonnes of carbon dioxide equivalent (tCO2e) (Scope 1)	47	35
Emissions from consumption of transport fuel (tCO2e) (Scope 1)	61	75
Emissions from consumption of purchased electricity tCO2e (Scope 2 location-based)	162	166
Total gross CO2e	270	275
Intensity ratio: tCO2e/$m	0.15	0.32

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

Non-financial Key Performance Indicators (KPIs)

04.

Non-financial KPIs	Description	2023 result
Sanctions	Sanctions matches (UK, European and OFAC-administered US sanctions).	12 instances where sanctions matches were identified due to exposure to specific named sanctions targets, (2022: 16).
Licensing	Policies written in line with licensing restrictions / permissions.	11 risks were re-stamped with all changes made as necessary by endorsement (2022: 20).
Bribery and corruption	Executive approval required prior to inception for risks where a party is domiciled in countries with a score of <20% on the CPI Index.	Approval was not sought post inception during 2023 in any cases (2022: 0).
Money laundering	Executive approval required prior to inception for risks where a party is domiciled in countries with a score of >7.5 on the Basel AML Index.	Approval was sought post inception on 52 occasions in 2023 either due to country score exceeding 7.5 on the Basel AML Index or certain territories being listed by the FATF (2022: 29). The increase compared with 2022 was due to a change in the basis of identifying exceptions from the date of entry on system to the date of policy inception.
Volume of complaints	Total number of complaints received.	361 (2022: 270). The increase in complaints experienced in 2023 illustrates the change in portfolio with the continued growth of the Delegated Property book of business. 2023 also saw several adverse weather events from severe cold snaps to storms which resulted in an increase in complaints.
Complaint outcomes	The number of complaints received that have been upheld, that is 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.	108 (2022: 73). The increase in upheld complaints was partly due to the continued development of the Delegated Property book of business and certain delays experienced at TPAs in the management of claims, leading to our transitioning away from said third parties and managing these claims in-house.
Financial Ombudsman Service (FOS) outcomes	Percentage of complaints that have been upheld by the FOS following referral of complaint by an eligible policyholder who disagrees with the Group's final decision.	Of 38 referrals, 24 decisions have to date been received with 5 instances where the complaint was upheld by the FOS – 1.4% (2022: 0.81%).
Voluntary employee turnover[1]	The number of permanent non-fixed-term contract employees of the HCC Service Company, Inc. (UK branch) and TME, who have voluntarily left over the past 12 months, divided by the average number of permanent non-fixed-term contract employees over the past 12 months.	9.8% (2022: 13.7%). These are the metrics we have reported on the culture dashboard and Ops Risk metrics. Turnover has decreased; however, the Group continues to monitor turnover and the reasons driving this and will take steps to address any identifiable trends.

[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.

Non-financial Information Statement

05.

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, it outlines the Group's response to its material and social impacts, employee issues, respect for human rights, anti-corruption and anti-bribery.

Reporting requirement	Policies and standards that govern the Group's approach	Risk management and additional Information
Environmental matters	• Sustainability Strategy	Principal Risks and Uncertainties pages 42 to 45 Stakeholder Engagement pages 51 to 56
Human rights	• Modern Slavery Statement • Data Protection Policy[2]	Business Conduct and Ethics pages 36 and 37 Stakeholder Engagement pages 51 to 56
Social and community	• Voluntary Work Policy[2] • Charity Strategy	Charity and Community page 30 Stakeholder Engagement pages 51 to 56
Anti-corruption and anti-bribery	• Financial Crime Manual[2] • Anti-Bribery and Corruption Policy[2] • Anti-Money Laundering Policy[2] • Gifts and Entertainments Policy[2] • Whistleblowing Policy[2]	Business Conduct and Ethics pages 36 and 37 Principal Risks and Uncertainties pages 42 to 45
Policy embedding, due diligence and outcomes	Principal Risks and Uncertainties pages 42 to 45	
Description of principal risks and impact of business activity	Principal Risks and Uncertainties pages 42 to 45 Business Model pages 12 and 13 and Stakeholder Engagement pages 51 to 56	
Description of the business model	Business Model pages 12 and 13	
Non-financial KPIs	Non-financial KPIs page 40	

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

Principal Risks and Uncertainties

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

Areas of risk

INSURANCE

Description

The four key components of insurance risk are: premium or future underwriting risk (including delegated authorities); reinsurance purchasing; claims management; and reserving.

The Group's insurance business assumes the risk of loss from persons or organisations that are themselves directly exposed to an underlying loss. Insurance risk arises from this risk transfer due to inherent uncertainties about the occurrence, amount and timing of insurance liabilities.

Mitigating actions / factors

- 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 both to internal and external clients.
- Using reinsurance to protect the Group's balance sheet.
- Monitoring exposures using modelling tools.

STRATEGIC, REGULATORY AND GROUP

Description

These are risks that arise from:

- the Group's strategy being inappropriate or the Group being unable to implement its strategy
- the Group not complying with regulatory and legal requirements
- the Group failing to consider the impact of their activities on other parts of the TMHCC Group and vice versa.

Mitigating actions / factors

- Setting and regularly monitoring risk appetites.
- A management structure that encourages organisational flexibility and adaptability, while ensuring that activities are appropriately co-ordinated and controlled.
- Operating across the TMHCC Group with clear and open lines of communication to ensure all TMHCC Group entities are well informed and working towards common goals.

MARKET

Description

Market risk arises where the value of assets and liabilities or future cashflows changes because of fluctuations in economic variables, such as movements in foreign exchange rates, interest rates and market prices.

Mitigating actions / factors

- An Investment Committee that ensures funds are invested in accordance with the 'prudent person principle', whereby assets: i) are of appropriate security, quality and liquidity; ii) are localised and adequately diversified; and iii) broadly match the liabilities.
- Adhering to an investment risk appetite that forms part of the Group's overall risk appetites.
- Setting and regularly monitoring risk appetites.
- Independent investment experts assisting with the implementation of the investment strategy and monitoring of the economic environment and investment performance.

OPERATIONAL

Description

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.

Mitigating actions / factors

- 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. This includes complying with the specific requirements of Consumer Duty and Fair Value.
- Setting and regularly monitoring risk appetites.
- Scenario testing and modelling operational risk exposure.
- Management review of operational activities, including IT, IT security and data protection.
- Documented policies and procedures.
- Ensuring key processes include preventative, directive and detective controls.
- Business continuity and contingency planning.
- Establishing and embedding systems controls.
- Establishment of an office, to ensure that the Group meets its operational resilience obligations in line with regulatory timelines.

CREDIT

Description

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.

Mitigating actions / factors

- Setting and regularly monitoring risk appetites.
- Limiting exposure to a single counterparty or group of counterparties.
- Establishing guidelines and approval procedures for counterparties.

LIQUIDITY

Description

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 cases, these claims are settled from premiums received.

Mitigating actions / factors

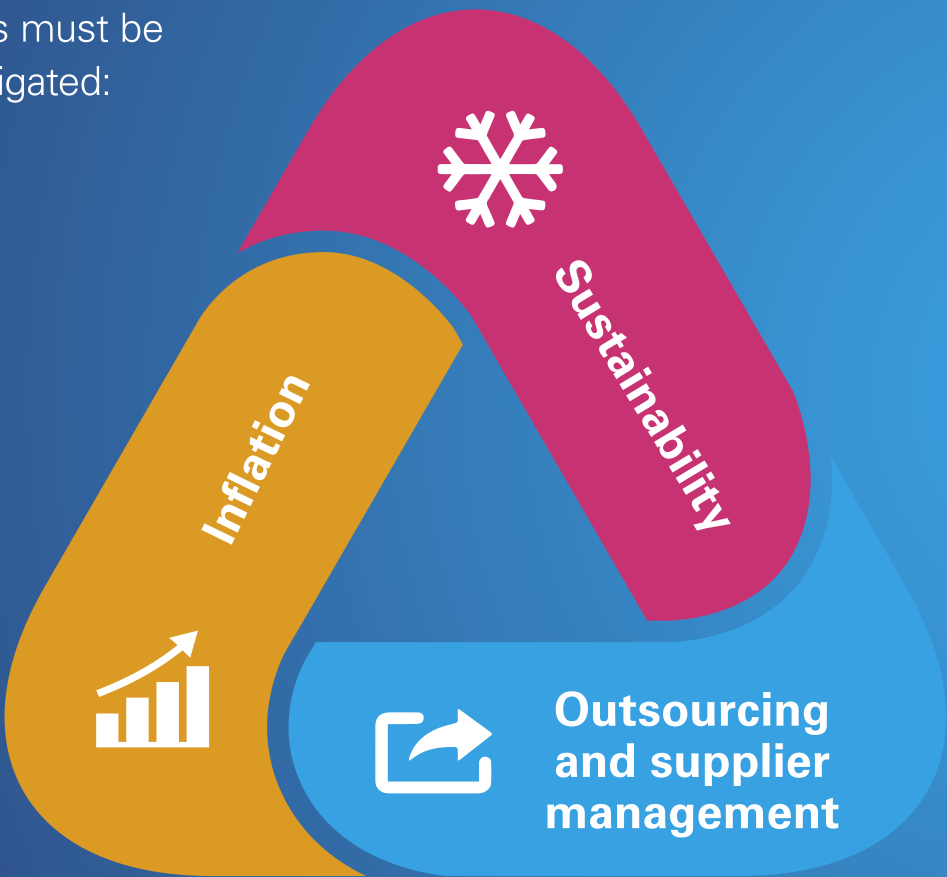
- Maintaining sufficient liquid assets, or assets that can be readily converted into liquid assets at short notice, so that the Group can reasonably survive a significant individual or market loss event.
- Using cashflow forecasting to help estimate liquidity requirements and to ensure that surplus funds are invested to achieve a higher rate of return.

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.

Developing and emerging risks

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 risks have the potential to impact, or require a review of, the existing strategic objectives. The Group also monitors risks that are likely to crystallise more imminently.

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



Sustainability

Sustainability risk, including climate change risk, continues to be recognised as an ongoing key risk for the Group. 2023 saw further work in terms of: i) continuing to embed sustainability risk within its governance and risk frameworks; ii) further development of risk appetites, and risk metrics to monitor them, particularly with regard to investments; iii) further work on potential quantitative impacts of climate change, including capital assessments and impacts from Reverse Stress Tests; and iv) development of various initiatives including the Business Travel initiative to allow for future CO^2 emissions data capture.

Inflation

Given recent rises in interest rates and consumer prices, the issue of inflation, including social inflation, remains a current hot topic in the industry, driven by concerns over supply chains, transport costs and recruitment / retention. Management has looked at how the risk is being mitigated in the areas of underwriting, claims, reserving and capital modelling, noting that the impact of inflation will vary widely by line of business. Explicit allowance for inflation is now incorporated within the reserving process and within the capital model. Management has concluded that the mitigations for this risk remain appropriate. In the current inflationary environment, the risk is being kept under close review.

Outsourcing and supplier management

Outsourcing and supplier management is a key focus for the Group, in light of greater reliance on cloud service providers and increased use of coverholders. Strong risk governance in this area is vital to ensure uninterrupted service to both external and internal stakeholders. It is also a sub-component of supply chain risk, which is an area subject to increased scrutiny with regulatory focus on insurers and their ability to demonstrate their operational resilience in this regard. Against a backdrop of increased digitalisation of the insurance market and escalating cyber-security threats, robust supply chain management is paramount. A central Vendor Management System has been purchased, and is being implemented, as part of a project that will enhance the performance of due diligence and monitoring against service standards. Resilience standards are also in the process of being developed to ensure that any disruption experienced by the Group's material outsourcers does not impact the service they provide to the Group.

Board of Directors

For the year ended 31 December 2023, the Group Board comprised: the independent Chair; Chief Executive; Group Chief Financial Officer; Chief Underwriting Officers (International Specialty, London Market and J Business); Chief Risk Officer; Chief People Officer; two Independent Non-Executive Directors and a Non-Executive Director. The Group Board's primary responsibility is to promote the long-term success of the Group by creating and delivering sustainable value. The Board seeks to achieve this by delivering its strategic objectives while ensuring that its values and culture align with that purpose.

Nick Marsh
Chair

Nick has been Chair since 2013, joining the Board of HCCII after a 40-year career with Atrium Underwriting Group. In addition to his role as Chair 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 Chair of HCC Underwriting Agency (HCCUA).

Nick held various roles during his career with Atrium Underwriting Group, including Chair 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 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 HCC Insurance Holdings, Inc. in 1999.

Barry is Chair of three EUMCs (London Market; Credit & Surety; and Professional Risks, Financial Lines, Contingency & Disability) and a member of the Risk, Capital and Compliance; Investment; Nomination; and Remuneration Committees.

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

Simon Button
Chief Underwriting Officer – London Market

Simon 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 Chair of the Sustainability Committee and a member of the Risk, Capital and Compliance, and Investment Committees as well as the EUMC for London Market. Simon is the Active Underwriter of HCC Syndicate 4141 and a Director of HCCUA, GCube, RELA and Tokio Marine Canada.

Thibaud Hervy
Chief Underwriting Officer – Specialty Lines

Thibaud joined the Group in 1999 as a Financial Lines underwriter and was appointed to the HCCII Board in 2011. He was made Chief Underwriting Officer – Specialty Lines in 2014.

Thibaud is a member of the Sustainability, Risk, Capital and Compliance, and Investment Committees as well as the EUMCs for Credit & Surety and Professional Risks, Financial Lines and Contingency & Disability. Thibaud is also a Director of TME, and a Director of HCCUA, QHL, QBuS and HCC Diversificación y Soluciones S.L.

Katherine Letsinger
Group Chief Financial Officer

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

Katherine is a member of the Investment Committee; the Risk, Capital and Compliance Committee and the EUMCs (London Market; Credit & Surety; and Professional Risks, Financial Lines and Contingency & Disability). She is a Director of HCCUA, QHL, QbuS and HCC Diversificación y Soluciones S.L., Credit Services, Gcube, RELA and Nameco (No.808) Limited.

Graham White
Chief Risk Officer

Graham joined the Group in 2016 as Chief Actuary and was appointed to the Board in 2017 as Chief Actuary and Chief Risk Officer. Following the appointment of a Chief Actuary in 2020, Graham was appointed as Chief Risk Officer for HCCII and TME. He is a Fellow of the Institute and Faculty 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, Capital and Compliance, Investment, Group Data Protection and Sustainability Committees. He is also a Director of HCCUA.

Angela Baker
Chief People Officer

Angela joined the Group in 2004 and has held the roles of HR Manager and Head of UK HR. Angela has over 25 years' HR experience with over 15 years spent in the insurance industry. In 2020, Angela was appointed as Chief People Officer, and she joined the Board in 2021. Angela is a member of the Remuneration, Group Data Protection and Sustainability Committees and is a Director of HCCUA.

Craig Scarr
Independent Non-Executive Director

Craig was appointed to the Board in 2015 as an Independent Non-Executive Director. He is the Senior Independent Director, Chair of the Audit, and Risk, Capital and Compliance Committees and a member of the Nomination and Sustainability Committees. During 2023, Craig was appointed as the Consumer Duty Champion, a role which he holds alongside being the Whistleblowing Champion.

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 Head of UK Insurance. He was also Chair of UK Insurance at Grant Thornton LLP.

During his career, Craig has been 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 held several Independent Non-Executive Directorships during 2023: HCCUA, HSB Engineering Insurance Ltd, USAA Ltd, Pinnacle Insurance Plc and Pinnacle Insurance Management Services Plc.

Ko Shimizu
Non-Executive Director

Ko was appointed a Non-Executive Director of HCCII in 2022. He has spent over 20 years with Tokio Marine, undertaking various roles that have included: General Manager – Reinsurance Europe and Americas for the International Business Development Division of Tokio Marine; Principal Officer – Tokio Marine Asia; and Deputy General Manager – Global Talent Management for Tokio Marine.

Ko 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.

Hideki Mishima
Chief Underwriting Officer – J Business

Hideki was appointed to the Board in 2021. He joined Tokio Marine in 1987. His career with Tokio Marine has spanned more than 35 years and included roles within underwriting and senior management teams in Japan and internationally. Hideki chairs the J Business EUMC and is a Director of HCCUA and TME.

Peter Engelberg
Independent Non-Executive Director

Peter was appointed as an Independent Non-Executive Director of HCCII in January 2023 and is Chair of the Investment Committee and a member of the Audit, and Risk, Capital and Compliance Committees and a member of the Nomination and Sustainability Committee. Peter is also a Director of HCCUA and TME.

Board members and attendance

There were six scheduled Board meetings held during 2023. The following table shows each Director's attendance at meetings of the Board during the financial year. The Chair meets privately with the Independent Non-Executive Directors before each scheduled Board meeting.

Member	Eligible to attend in 2023	Attended
Chair		
Nick Marsh	6	6
Executive Director		
Angela Baker	6	5
Simon Button	6	5
Barry Cook	6	5
Thibaud Hervy	6	6
Katherine Letsinger	6	6
Hideki Mishima	6	6
Graham White	6	6
Non-Executive Director		
Ko Shimizu	6	6
Independent Non-Executive Director		
Hans-Dieter Rohlf*	2	2
Craig Scarr	6	5
Peter Engelberg	6	6

*Director resigned during 2023

Board's activities in 2023

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. 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 and business performance

- Received updates on the Group's 2023 Outwards Reinsurance Programmes.
- Received updates on the insurance market environment and rates, including the impact of market losses, new and existing markets and regulatory changes, and the resulting impact on the industry as a whole.
- Approved the Group's Sustainability Strategy.
- Received updates on material communications with regulators and considered the impact of changes in regulation and developing regulation.
- Received updates on progress against strategic initiatives.
- Received updates on TME's operations and performance.
- Approved London Market Underwriting initiatives.

Governance

- Reviewed and approved the Modern Slavery Statement.
- Received updates on legal, regulatory and corporate governance matters.
- Considered and reviewed the composition of the Board and its Committees and the appropriateness and effectiveness of the governance framework and systems of governance.
- Received updates on communications from and engagement with regulators.

Board training

At several 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:

- Treaty Reinsurance
- Consumer Duty
- Property D&F
- Operations.

Risk

- Received quarterly updates on the Group's strategic risk metrics and conducted an annual review of the risk appetites and metrics.
- Regularly reviewed key risks, together with the adequacy of mitigation controls.
- Received updates on the PRA's operational resilience requirements and the associated project and approved the important business services.
- Formally reviewed and approved of Own Risk and Solvency Assessment and Validation Reports.
- Approved the Internal Controls Policy.

Financial performance

- Monitored capital and solvency.
- Reviewed financial performance and forecasts.
- Considered and approved the 2024–2026 budget.

Leadership and stakeholders

- Considered updates on employees, including D&I, wellbeing and succession planning.
- Monitored and assessed the Group's culture through the Culture Dashboard.
- Received updates on the Group's Sustainability activities.

Stakeholder engagement

Section 172 of the Companies Act 2006 requires a director of a company to act in the way he or she considers, in good faith, would most likely promote the success of the company for the benefit of its members as a whole. In doing so, they must have regard to the range of factors set out in section 172 (1) (a)–(f) of the Companies Act 2006.

The Directors of HCCII, in discharging their section 172 duty, have regard to the factors set out in section 172 (1) (a)–(f) and take them into consideration when decisions are made. It is acknowledged that every decision made by the Board will not necessarily result in a positive outcome for all stakeholders. However, by considering the strategic objectives and priorities, vision, purpose and values (as set out on pages 8–11 of this report) and having a process in place for decision-making, the HCCII Board aims to ensure a consistent approach.

The Board delegates authority for day-to-day management of HCCII and other subsidiaries in the Group to the Executive team and then engages management in setting, approving and overseeing execution of the business strategy and related policies. The Board is responsible for embedding a culture throughout the business that will help deliver long-term success to HCCII and the Group. It is also responsible for setting policies as well as the corporate governance structure of the Group.

The Board meets quarterly and regularly reviews people engagement and performance, financial and operational matters, business performance, growth and opportunities, sustainability and climate risk issues and legal and regulatory compliance. Over the course of the year, it also reviews the business strategy and budget, key risks and opportunities, stakeholder-related matters, D&I and corporate governance.

The Group's key stakeholders are its employees, shareholders, clients, brokers, regulators, suppliers, communities and the environment. The impact of the Group's activities on its key stakeholders is an important consideration for the Directors when making relevant decisions. The Group's stakeholder engagement takes place primarily at an operational level. Details of some of the engagement that takes place with the Group's stakeholders is set out in the stakeholder table on pages 51 to 56.

During 2023, the Board received information to enable it to understand the interests and views of the key stakeholders. This information was received in a variety of different formats, including in reports and presentations on the Group's financial and operational performance, non-financial KPIs, risk, ESG matters and the outcomes of specific pieces of engagement (for example, the results of employee surveys). As a result of this, the Board Directors have had an overview of engagement with stakeholders and other relevant factors, they understand the nature of the stakeholders' concerns and can comply with their section 172 duty to promote the success of the Company. Below are some examples of how the Board has had regard to the matters set out in section 172(1)(a)–(f) when discharging its section 172 duty and the effect of that on the decisions it takes.

How the Group engages with its stakeholders

People

Why the Group engages

The Group employs experienced, diverse and dedicated employees who are a key asset and fundamental to its long-term success.

A key element of Tokio Marine's Good Company ethos is to Empower Our People. Therefore, it is important that the Group continues to engage with and provide development opportunities for employees.

How the Group engages

The Group has several established engagement mechanisms in place for employees:

- Communications from the CEO
- Communication from the Chief People Officer (CPO), the Workplace Group and Social Committee
- Town Hall meetings, departmental and company-wide
- Executive Breakfasts
- Regular one-to-one meetings with managers, providing two-way engagement
- Performance management system
- Workplace Group, which includes rotating employee members
- Annual Culture and Values Survey, enabling confidential feedback
- Employee network groups
- Workplace strategies including:
  - Wellbeing Strategy (including the Wellbeing Survey)
  - Diversity and Inclusion Strategy (D&I)
  - Learning and Development Strategy (L&D)
- The Group's intranet, The Port
- Wellbeing webinars.

The Board receives regular People and Culture updates from the CPO.

Examples of actions taken in 2023

- Mental Health Awareness week
- Establishment of a Mental Health Policy
- Trained 43 Mental Health First Aiders
- Executive Breakfast sessions
- Partnered with Fertility Matters at Work (FMAW) and ran a Fertility Awareness Week
- Launched the Thrive Benefits portal
- Established Employee Networks.

Find out more

Business Structure – pages 4 to 7

Business Model – pages 12 and 13

People – pages 34 and 35

Non-Financial KPIs – page 40

Business Conduct and Ethics – pages 36 and 37

Clients and broker partners

Why the Group engages

The Group has a primarily intermediate business model and the International Specialty, London Market and J Business products are distributed to clients through established relationships with wholesale, regional and specialty brokers who are key stakeholders and also enable the Group to engage with its ultimate clients.

Understanding clients' needs and providing them with the right solutions at the right price is fundamental to the Group's performance.

How the Group engages

Building long-term relationships with its clients and taking the time to understand clients' individual requirements is of the utmost importance to the Group. During the year, the Group engaged with its clients and brokers through:

- Executive and Senior Management, Underwriting, Business Development, Claims and Compliance Teams
- Direct conversations
- Webinars
- Market insight reports
- Marketing activities including social media
- Virtual broker roadshows/events
- Broker Expo
- Conferences.

The CEO and Chief Underwriting Officers (CUOs) are actively engaged with broker partners and key clients and the Board receives updates and insights on these key stakeholders as part of its discussions.

Examples of actions taken in 2023

- Professional Risks – webinars
- Trade Credit – risk surgeries with brokers
- BIBA Conference 2023
- Treaty Australia and Singapore Conference
- Trade Credit podcast
- GCube 20th Advisory Council.

Find out more

Business Structure: pages 4 to 7

Business Model: pages 12 and 13

Business Performance: pages 18 to 27

Shareholders

Why the Group engages

The Board continues to align the Group's strategic objectives to its purpose and to shareholders' long-term objectives in order to produce consistent and sustainable results that increase shareholder value. Increasingly, this includes ESG updates alongside risk and financial performance data.

How the Group engages

The Group has an ongoing dialogue and regular engagement with its immediate shareholder, TMHCC Group, and its ultimate parent company, Tokio Marine Holdings, Inc., through:

- 1:1 meetings
- Annual Report and financial statements
- Quarterly results presentations
- Tokio Marine's Corporate Liaison Officer (who works within the Group)
- Tokio Marine's representative, who is appointed to the Group's Board and provides an additional method of communication between the Board and its ultimate shareholders.

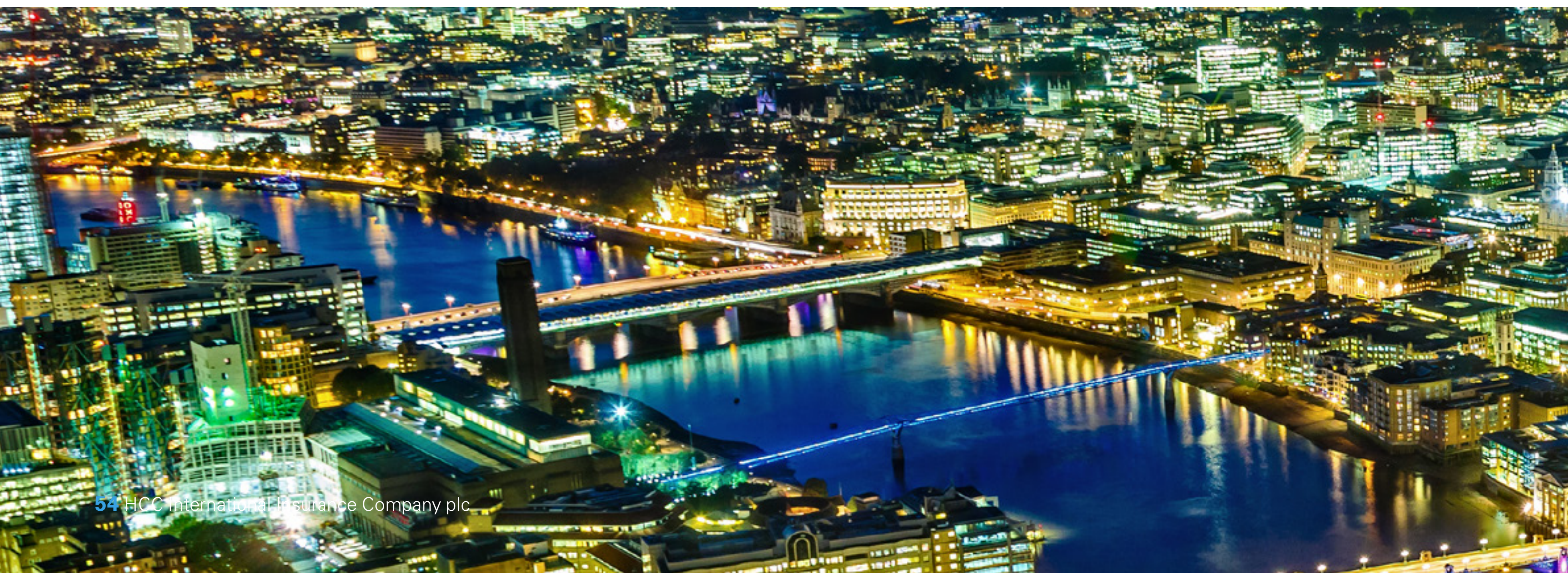
Examples of actions taken in 2023

The CEO and Executive team held regular dialogue with the Group's shareholders – both immediate and ultimate.

Find out more

Business Structure: pages 4 to 7

Business Model: pages 12 and 13



External partners

Why the Group engages

The Group's relationships with its reinsurers continues to be central to its business model and management of risk.

The Group works with a number of key suppliers and outsource partners.

The Group has a number of regulators including the PRA and FCA in the UK, and the Commissariat aux Assurances in Luxembourg in respect of TME.

How the Group engages

The Group has an ongoing dialogue with its reinsurers, key suppliers and outsourced providers. Prior to any new engagement of suppliers and outsourced providers, the Group undertakes thorough due diligence. In addition, the Group engages with its material suppliers and outsourced providers at annual review meetings.

The Board receives updates on the Group's reinsurance arrangements from the CEO and CUOs and on suppliers and outsourced providers from the COO.

The Group maintains an open and transparent dialogue with its regulators that is facilitated through the Compliance Department. The Executive and Non-Executive Directors have ongoing engagement with the Group's regulators, including requests to discuss specific matters.

The Group provides responses to regulatory consultations where it believes it has something to contribute.

Regulatory communications and discussions are reported to and discussed by the Board.

The Group carries out annual monitoring of material suppliers.

Examples of actions taken in 2023

The CEO and CUOs have regular meetings with the Group's outwards reinsurance brokers and outwards reinsurers.

Meetings are also organised between the regulator and the CEO, Chairman and other Directors.

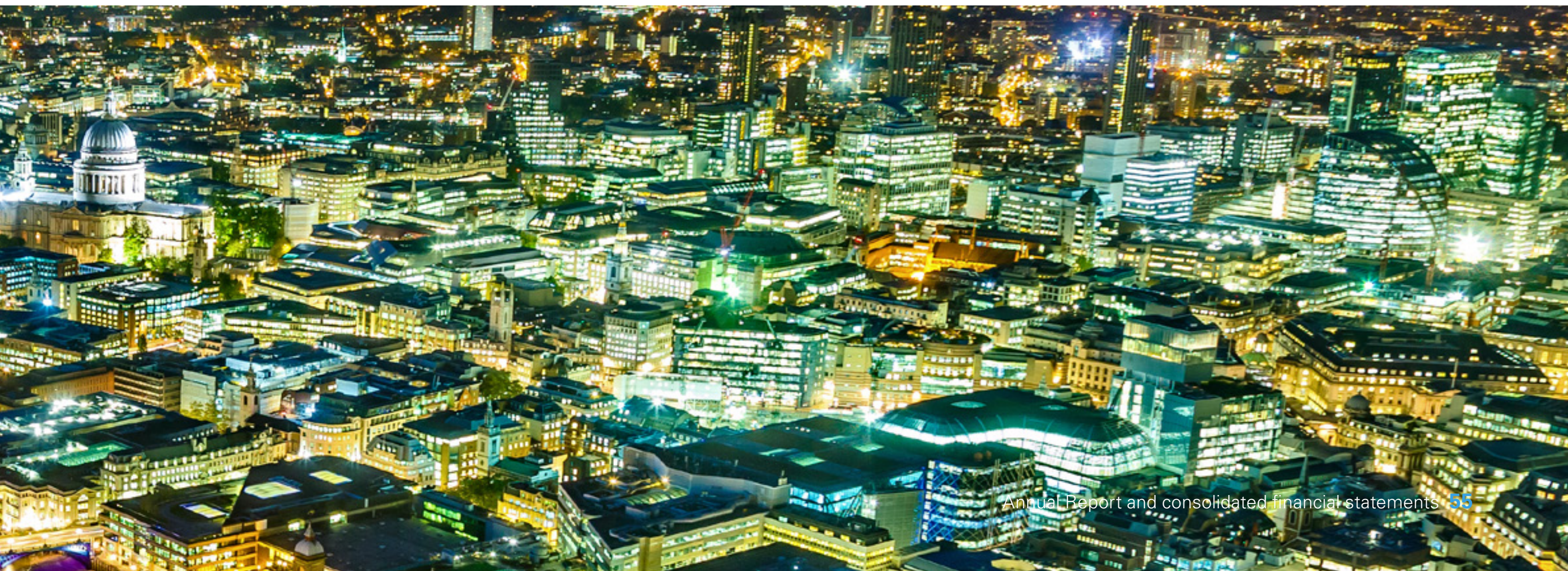
A new vendor management system was implemented during 2023.

Find out more

Business Model: pages 12 and 13

Business Conduct and Ethics: pages 36 and 37

Principal Risks and Uncertainties: pages 42 to 45



Charity and community

Why the Group engages

A core component of Tokio Marine's Good Company ethos is Look Beyond Profit, acting with integrity for the benefit of society.

The Group is committed to engaging with and supporting the communities in which it operates.

How the Group engages

The Group engages with its local communities through:

- charity partnerships
- employee volunteering
- charity ambassadors
- fundraising events.

The Group's charitable and community activities are overseen by its Charity Committees, and updates are communicated to the Board via the Sustainability Committee.

The Group matches charitable funds raised by employees.

Examples of actions taken in 2023

The Group encourages employees to use their two volunteer days each year in support of the Group's charity partners or for their own volunteering and charitable initiatives.

- Pick a Project Event
- Launch of new charity partner, Hestia
- Volunteer week
- Give an Hour initiative
- Pride Lunch and Learn
- Black History Month
- 25 volunteering opportunities
- Career Insight Days with our two charity partners that support young people (The Wickers and Facing History and Ourselves).

The Group's charitable contributions in 2023 totalled $704,200.

Find out more

Business Model: pages 12 and 13

Charity and Community: page 30

Principal decisions of the Board 2023

Highlighted below are examples of the principal decisions made by the Board during 2023 that considered the impact of strategic and operational decisions on the Group's stakeholders.

London Market Segment – Strategic Initiatives

In Q4 2023, the Board received and discussed proposals to: expand the Marine Hull line of business through the addition of several employees from Lavaretus Underwriting, a specialist MGA and Lloyd's coverholder focused on the shipping, power and energy sectors; and to establish a new Power underwriting line of business within the London Market division, to develop the Group's Marine and Energy product offering. The Board noted that the proposal was consistent with the Group's strategy to grow its business through the extension and establishment of new lines of business which complement the existing business and to have a diversified portfolio of business. The Board approved the proposal and agreed that the new line of business would benefit its customers and brokers through increased products and would create long-term value for the Group, which would in turn create value for all stakeholders.

2024–2026 Business Plan and Budget

The Board formally considers, approves and adopts its strategic and operating plans and budgets on an annual basis, ensuring the Group has the appropriate resources, operational and governance frameworks to support the business to deliver against its performance objectives.

During the year the Group's Budget for 2024–2026 was reviewed and discussed with management prior to its formal approval by the Board. To support the Board in its approval of the 2024–2026 Budget, the Enterprise Risk team provided a Risk Opinion which illustrated the stress and sensitivity analysis undertaken on areas that may prevent the Group from achieving its budget. The Board is regularly updated on, actively monitors and proactively responds to the progress against the Group's budget.

Governance structure

The Board as a whole is collectively responsible for the success of the Group. Its duties are to:

- set the Group's strategic direction, purpose and values and align these with its culture
- oversee competent and prudent management of internal control, corporate governance and risk management
- determine the sufficiency of capital in light of the Group's risk profile and business plans
- approve the business plans and budgets.

While the Board retains oversight and accountability for decision-making within the Group, responsibility for day-to-day management and decision-making is delegated to the CEO and the Executive team. The Board delegates specific responsibilities to its formal committees, which consist of individuals with the most appropriate knowledge, expertise, industry experience and independence in their given areas. The duties of the Board are executed partially through its principal committees: Nomination; Audit; Risk, Capital and Compliance; Investment; Remuneration; Executive Underwriting and Monitoring; Group Data Protection; and Sustainability. These committees operate within defined terms of reference, which are reviewed regularly by the Board. The role of Company Secretary to the Board is performed by the Company Secretary and Corporate Counsel.

Board

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

The Board delegates responsibility for certain areas to eight principal committees

1. Nomination Committee
2. Audit Committee
3. Risk & Capital Management Committee
4. Investment Committee
5. Remuneration Committee
6. Executive Underwriting & Monitoring Committees
7. Group Data Protection Committee
8. Sustainability Committee

Supporting committee/groups

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

1

Nomination Committee

The Board operates a Nomination Committee to ensure that the structure, composition and skills of the Board are aligned to the Group's strategic objectives and 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. In doing so, it will follow its appointments procedure, which includes taking advice from independent external recruitment consultants. In 2023, the Committee was chaired by Nick Marsh and comprised two other Independent Non-Executive Directors (Peter Engelberg and Craig Scarr) and Chief Executive Barry Cook.

2

Audit Committee

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

The Committee has clearly defined terms of reference, which are reviewed annually. 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 and overseeing the following areas: the Group's accounting policies; the effectiveness of internal financial controls; internal audit processes; the quarterly reserve recommendations from the Incurred But Not Reported (IBNR) Committee and the quarterly actuarial analysis; the effectiveness of the whistleblowing procedures; and the scope and results of the external audit.

Craig Scarr, a Chartered Accountant, was appointed Chair of the Committee in 2016. In 2023, the Audit Committee comprised two other Independent Non-Executive Directors (Nick Marsh and Peter Engelberg). The Board is satisfied with the recent and relevant financial experience of the Committee Chairman.

3

Risk, Capital and Compliance Committee

The Group has a Risk, Capital and Compliance Committee that oversees the Group's risk management framework, approach to capital, and regulatory compliance. The main responsibilities of the Committee are: to make recommendations to the Board in respect of its risk strategy, risk appetites and tolerances; to ensure there is an effective and integrated risk management framework in place that allows inherent and emerging risks to be identified, monitored and mitigated in a timely manner (see Principal Risks and Uncertainties on pages 42 to 45 and Note 5); and to recommend to the Board the regulatory capital requirements.

The Committee is chaired by Craig Scarr (Independent Non-Executive Director). The Committee also comprises Barry Cook (Chief Executive), Katherine Letsinger (Group CFO), Graham White (Chief Risk Officer), Simon Button (Chief Underwriting Officer – London Market), Thibaud Hervy (Chief Underwriting Officer – Specialty Lines), Peter Engelberg (Independent Non-Executive Director) and the functional leaders, including the Group Chief Operating Officer, Chief Analytics and Innovation Officer, Chief Actuary and Head of International Compliance. The Board remains satisfied that the composition of the Committee strengthens the Group's risk management framework, and that the Committee remains focused on the key risks affecting the Group's financial and operating performance.

4

Investment Committee

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

Peter Engelberg (Independent Non-Executive Director) chairs this Committee, and in 2023 its membership comprised Nick Marsh (Independent Non-Executive Director), Barry Cook (Chief Executive), Katherine Letsinger (Group CFO), Simon Button (Chief Underwriting Officer – London Market), Graham White (Chief Risk Officer), Thibaud Hervy (Chief Underwriting Officer – Specialty Lines), Group Head, FP&A & Legal Entity Reporting, the TME CEO and TME CFO, HCC Insurance Holdings, Inc.'s CFO and HCC Insurance Holdings, Inc.'s Head of Investments.

5

Remuneration Committee

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

In 2023, the Remuneration Committee was chaired by Nick Marsh (an Independent Non-Executive Director). Other members included Barry Cook (Chief Executive), Katherine Letsinger (Group CFO) and Angela Baker (Chief People Officer).

6

Executive Underwriting & Monitoring Committees

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

The main purpose of the EUMCs is to ensure that the lines of business operate in accordance with the Group's strategic objectives. The key responsibilities of the EUMCs are to: review the line of business performance against budget; 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 IBNR for each line.

Except for EUMC – J Business, all EUMCs are chaired by Barry Cook (Chief Executive). The other Executive Directors in attendance at these meetings include Katherine Letsinger (Group CFO) and the Chief Underwriting Officer for the relevant segment (Simon Button – London Market or Thibaud Hervy – Specialty Lines). 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).

EUMC – J Business was chaired by Hideki Mishima (Chief Underwriting Officer – J Business) and included the Chief Underwriting Officer – Specialty Lines as well as representatives from the J Business segment, claims and finance.

7

Group Data Protection Committee

The Group Data Protection Committee's purpose is to oversee the data protection framework across the US, UK and Europe, monitoring its effectiveness to minimise the risk of regulatory or legal exposure and fostering trust with its data subjects.

During 2023, the Committee was chaired by the Head of International Compliance and Data Protection Officer. Graham White (Chief Risk Officer) and Angela Baker (Chief People Officer) were members of the Committee along with functional heads from the UK and US. The main responsibilities of the Committee are the annual production of a Data Protection Plan, to monitor any data breaches and data subject access requests.

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Sustainability Committee

The Sustainability Committee was established to explore the ESG risks, trends and opportunities that might impact the Group's business, and to develop the Group's Sustainability Strategy. The Committee is chaired by Simon Button (Chief Underwriting Officer – London Market). The composition of the Committee includes Graham White (Chief Risk Officer), Thibaud Hervy (Chief Underwriting Officer – Specialty Lines), Angela Baker (Chief People Officer), Craig Scarr (Independent Non-Executive Director), the CEO of TME and functional heads including the Global Marketing Leader, the Head of International Compliance, Group Head of FP&A & Legal Entity Reporting, and the Company Secretary.

Corporate governance statement

For the year ended 31 December 2023, 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 and Leadership

The Board is collectively responsible for the long-term strategy, direction, performance and success of the Group. The Group operates in the Specialty Insurance sector, providing risk solutions to companies that are complex or in industries that require bespoke solutions, often in fast-changing environments. The Group's purpose is to deliver risk solutions that provide continuity to its clients in times of business disruption. This highly specialised, quality underwriting delivers clearly articulated and transparent products that will inspire the trust and confidence of clients.

The Board recognises that maintaining a healthy culture throughout the organisation is critical to creating and protecting long-term value. The Good Company framework on pages 28 and 29 illustrates the Group's vision, purpose, priorities, culture and values as key elements that will enable it to deliver its strategic objectives. The Group also ensures that Tokio Marine's overarching Good Company vision, which incorporates the fundamental values Look Beyond Profit, Empower Our People and Deliver On Commitments, is consistent with its purpose and values and incorporated into its strategic framework. The Board monitors culture through various mechanisms, including the annual Culture and Values Survey and routine Board reporting which includes a Culture Dashboard.

The Group operates globally, and its success and continued growth depends on its ability to attract and retain highly skilled, disciplined and experienced individuals of exceptional quality, who thrive in a constantly changing environment. This enables the Group to place one of the values within the Good Company vision, Empower Our People, at the forefront of providing Specialty Insurance solutions that consider the fast-changing impacts of climate change, technological disruption and other issues that may adversely affect clients.

PRINCIPLE 2

Board Composition

Biographies for each Director can be found on pages 46 to 48.

During 2023, the Board comprised the Independent Non-Executive Chairman, seven Executive Directors, two Independent Non-Executive Directors and a Non-Executive Director and was supported by the Company Secretary and Corporate Counsel. The Board is considered to be an appropriate size for the business with the right balance of Executive and Non-Executive Directors. The Group has a strong Board with diverse experience, background and skills, with a good balance between established and new Directors. The Board welcomed Peter Engelberg as an Independent Non-Executive Director on 1 January 2023. Peter brings experience in banking and asset management in Europe, law and governance to the Board. Hans Rohlf stepped down as Senior Independent Director in April 2023 after 10 years on the Board. Craig Scarr was appointed as Senior Independent Director during 2023. The Board acknowledges that the Chairman has served on the Board for more than nine years; however, the Board considers that Nick Marsh remains independent as he continues to demonstrate integrity, independent judgement, and a willingness to challenge and probe.

The Group has a clear division of responsibilities between the Chairman and Chief Executive to ensure it maintains appropriate separation of responsibilities, accountabilities and decision-making.

The Non-Executive Directors, including Independent Non-Executive Directors, bring experience in insurance, reinsurance, finance, audit, risk, governance, operations and in Tokio Marine's wider operations. In addition, the Independent Non-Executive Directors bring outside experience and provide constructive challenge and influence, giving the Board a diversity of perspectives. The Non-Executive Directors held regular meetings with the Chairman during 2023, and these meetings provided them with the opportunity to exchange views without the presence of the Executive Directors.

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

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

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

The Executive team, comprising the Chief Executive, Group CFO, two CUOs and the GCOO, ensures that the values, strategy and culture align, are implemented and are communicated to employees.

The Directors receive regular updates on new legislation, regulatory requirements and other changes to ensure that they are fully equipped to make decisions about the business. In addition, the Directors update their skills and knowledge of – and familiarity with – the business by meeting with senior management; receiving regular presentations at Board meetings from specific departments or lines of business within the Group; and receiving externally facilitated training. The Group has a comprehensive induction programme for all new Directors, which is tailored according to the specific experience and knowledge of each new Director. This programme provides new Directors with access to all areas of the business and its key individuals. As part of their induction, Directors are briefed on their duties under section 172 of the Companies Act 2006 and can access advice on these areas throughout their tenure from either the Company Secretary or an independent external advisor.

The Board considers the regular reviews undertaken by its function, Committees and Directors to be an essential element of good corporate governance and a mechanism for identifying key areas of focus and future improvement and strengthening its overall performance. mechanism for identifying key areas of focus and future improvement and strengthening its overall performance.

PRINCIPLE 3

Director Responsibilities

Accountability

The Group's governance framework supports the business to make effective decisions. While the Board has overall responsibility and oversight, the Group's governance framework is designed to ensure that key decisions are made by the individuals and Committees with the most appropriate knowledge and experience. The Board has a schedule of six principal meetings a year, and there is a process by which any significant matters are communicated to the Board outside of its scheduled meetings. The Board receives regular reports on the business, financial performance, operations, culture and people updates. The Board's key areas of focus in 2023 are included on page 50. Each Director has a clear understanding of their accountability and responsibilities, which are set out in their Statement of Responsibilities.

Directors, Heads of Departments and Underwriting and Claims employees are required to complete annual conflicts of interest declarations. These are collated by the Compliance Department, and where there are potential conflicts, appropriate safeguards and processes are 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 has delegated a number of responsibilities to its Board committees (Audit; Group Data Protection, Risk, Capital and Compliance; Remuneration; Nomination; Investment; Executive Underwriting and Monitoring; 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 59 to 61. A review of the governance structure was undertaken during 2023, and changes to the governance structure and composition of the Board committees and sub-committees were recommended to and approved by the Board.

Integrity of information

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

Key financial information is collated from the Group's various accounting systems. The Group's Finance function is appropriately qualified to ensure the integrity of this information and is provided with the necessary training to keep up to date with regulatory changes. Statutory financial information is externally audited by PwC on an annual basis, and financial controls are reviewed by the Group's Internal Audit function. Other key information is prepared by each relevant internal function, and Internal Audit reviews processes for collecting data from the various systems, including underwriting and claims, as well as the reporting of that data, on a cyclical basis.

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

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

The Chairman and Company Secretary are responsible for ensuring that Directors receive accurate, timely and clear information. To ensure that adequate time is available for Board discussion and to enable informed decision-making, briefing papers are prepared and circulated to Directors a week prior to scheduled Board meetings.

PRINCIPLE 4

Opportunity and Risk

Opportunity

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

Risk and responsibilities

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

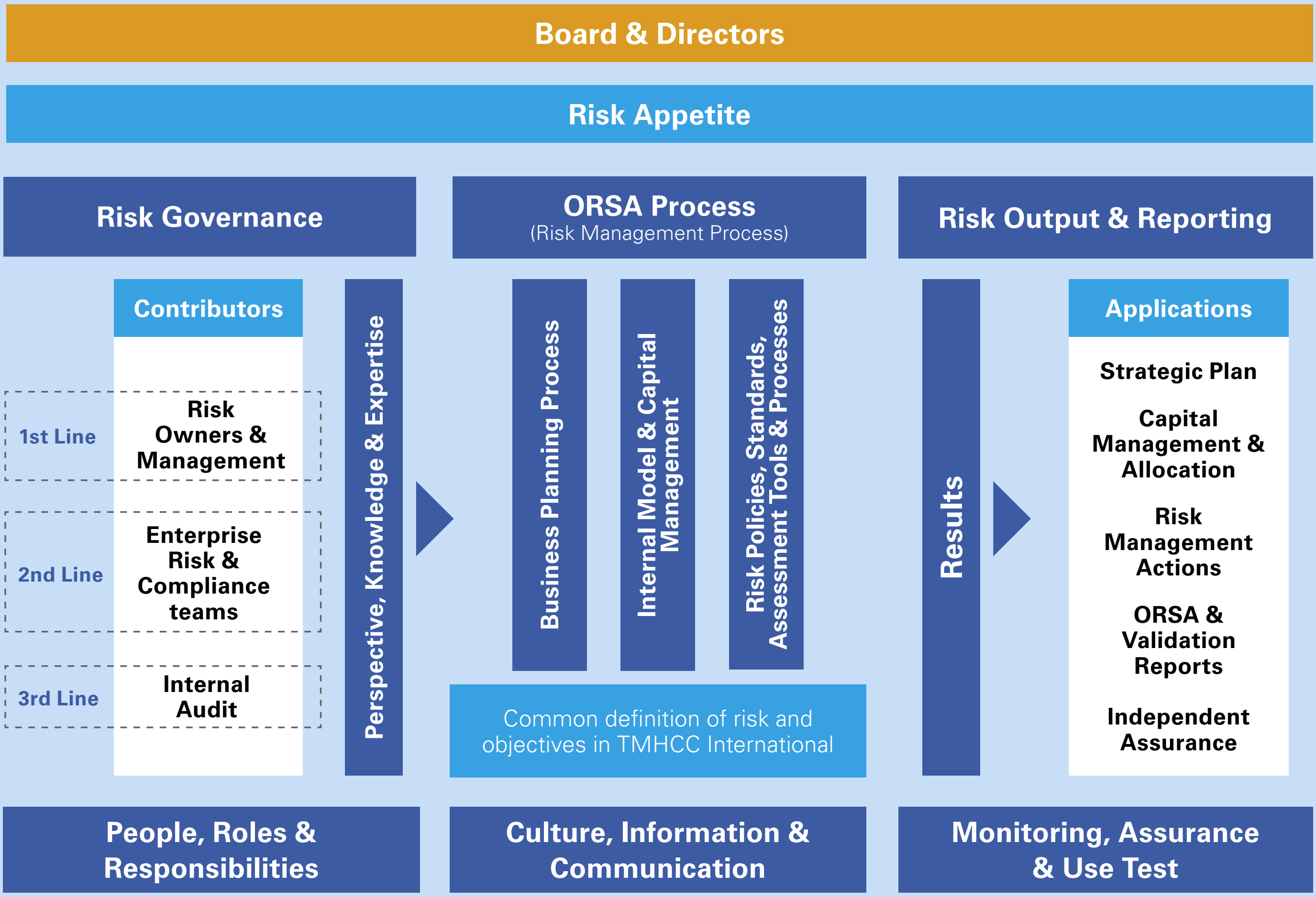
The Board has ultimate responsibility for ensuring the Group has a robust ERM and internal control framework in place, and regularly reviews its principal risks, mitigants and overall risk appetites. Certain risk management activities are delegated to the level that is the most appropriate for overseeing and managing the risks.

The Group's principal risks, uncertainties and mitigations are set out on pages 42 to 45. 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 it.

The Group operates a 'three lines of defence' risk governance framework that 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 the International Compliance and Enterprise Risk Departments and the Risk, Capital and Compliance Committee.
3. Internal Audit provides independent assurance to the Board and senior management on the effectiveness of risk management processes.

The diagram below illustrates the Group's ERM framework, demonstrating how risk appetite, risk governance, risk management, risk output and reporting interact with one another.



Risk Appetite – the level of business risk the Group will take in order to achieve the strategic objectives. The Group has established risk appetite statements, which provide assurance that the Group is able to manage or absorb the impact of a risk in the event 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, Capital and Compliance Committee leads detailed discussions on principal and emerging risks on behalf of the Board and recommends to the Board the approval of the ERM framework, including risk limits, appetites and tolerances.

Risks transition from the emerging risk radar to the live risk tracker as they become more likely to impact the Group's strategic objectives. Risks then transition 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

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

The Remuneration Committee has clearly 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 for approving the remuneration arrangements for all employees. Salaries of all Group employees are aligned to the performance of the business and market conditions, with bonuses driven by a combination of personal and business performance.

The Group promotes a diverse and inclusive workplace, and an environment free from discrimination, harassment and victimisation, where everyone receives equal treatment and career development regardless of age, gender, nationality, ethnic origin, religion, marital status, sexual orientation or disability. All decisions relating to employment practices (including remuneration) are objective, free from bias, and based solely on work criteria and individual merit. As detailed in the People section on pages 34 and 35, the Group has taken steps to further strengthen its D&I Strategy and publishes its gender pay reporting information on its website.

PRINCIPLE 6

Stakeholder Relationships and Engagement

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

The Group is aware of its broader impact on its stakeholders, including its employees, the environment, its customers, and the communities in which it operates, and regularly considers the Group's relationship with its various stakeholder groups. The Group applies the core principles of the Good Company vision, and to support its approach to being a sustainable and responsible business, has established a sustainability governance structure to support its activities. Details of its sustainability initiative, and other initiatives, can be found in the following sections: Good Company Approach, Charity and Community, People, Business Conduct and Ethics, and Climate Risk on pages 28 to 39.

The Board ensures it has effective relationships with all stakeholders through ongoing dialogues that are open, co-operative, and transparent. Examples can be found in the table within the section 172(1) statement on pages 51 to 56 which provides details of the Group's main stakeholders and some of the engagement that has taken place with them at an operational or Board level during the year.

On behalf of the Board

BJ Cook
Chief Executive Officer

Registered in England and Wales at
1 Aldgate
London, EC3N 1RE
Company number 01575839

5 April 2024

Directors' Report

Directors' Report

The Directors present their Directors' Report and the audited financial statements of the Group for the year ended 31 December 2023.

The Directors' Report is set out on pages 68 and 69. Additional information is incorporated into this Directors' Report by reference and should be read as part of it, including information required by the Companies Act 2006 which is contained in the Corporate Governance Statement on pages 46 to 66 and in the Strategic Report set out on pages 4 to 45.

Strategic Report

The Group is required to produce a fair, balanced and comprehensive review of the Group's business for the financial year. The Strategic Report details the Group's business strategy and business model on pages 8 to 13, location of branches outside the UK on page 7, a description of the principal risks and uncertainties on pages 42 to 45 and a review of the Group's activities and the position of the Group at 31 December 2023, as well as its prospects for the future, on pages 18 and 27.

Board of Directors

The Directors of the Group set out below have held office from 1 January 2023 to the date of this report unless otherwise stated:

- A M Baker
- S A Button
- B J Cook (Chief Executive Officer)
- P Engelberg (appointed 1 January 2023)
- T J G Hervy
- K L Letsinger
- N C Marsh (Non-Executive Chair)
- H Mishima (resigned 4 April 2024)
- H-D Rohlf (resigned 30 April 2023)
- C Scarr (Non-Executive)
- K Shimizu (resigned 4 April 2024)
- 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 Chair 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 cashflow risk is addressed under the headings of Credit Risk, Liquidity Risk and Market Risk.

Independent auditors and disclosure of audit information

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

Statement of Directors' responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with UK GAAP (Accounting Standards, comprising FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland, and applicable law).

Under company law, Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and HCCII and of the profit or loss of the Group for that period. In preparing the financial statements, the Directors are required to:

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

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

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

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

Directors' confirmations

The Directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

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
- they have taken all the steps that they ought to have taken as a Director in order 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.

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

Share capital

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

Voting

Each Ordinary Share of HCCII carries one vote.

Substantial shareholding

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

Dividends

No dividends were paid during the year ended 31 December 2023 (2022: $115 million). The Directors recommend a final dividend of 90 US cents per ordinary share for the year ended 31 December 2023. Subject to approval by shareholders of the recommended final dividend, the dividend to shareholders for the year ended 31 December 2023 will total $150 million (2022: $nil). If approved, HCCII will pay the final dividend on 28 June 2024 to shareholders on the register of members at 8 April 2024.

Post balance sheet events

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

On behalf of the Board

J L Holliday
Company Secretary

Registered in England and Wales at

1 Aldgate, London, EC3N 1RE

Company number 01575839

5 April 2024

Independent Auditors' Report

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 2023 and of the Group's profit and the Group's cashflows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, including 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 2023; the Consolidated Profit and Loss Account; the Consolidated Statement of Other Comprehensive Income; the Consolidated Statement of Cash Flows; the Consolidated and Company Statements of Changes in Shareholders' Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

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

Basis for opinion

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

Independence

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

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

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

Our audit approach

Context

HCC International Insurance Company plc (the 'Company') and its subsidiaries (the 'Group') is a general insurance group located in the United Kingdom and Continental Europe. Our work to address the audit risks that are inherent to the business is supported by our in-house specialists, with our approach consisting of a blend of controls and substantive testing.

Overview

Audit scope

- We performed full scope audit procedures over the Company and the significant component Tokio Marine Europe S.A. (TME); and
- 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.

Key audit matters

- Valuation of claims incurred but not reported ("IBNR") reserves and the associated reinsurers' share of claims IBNR reserves (Group and Company).

Materiality

- **Overall Group materiality:** $12,590,000 (2022: $13,200,000) based on the change in net earned premium which results in 1% change of combined operating ratio excluding other technical income ("COR").
- **Overall Company materiality:** $9,577,000 (2022: $11,100,000) based on the change in net earned premium which results in 1% change of combined operating ratio excluding other technical income ("COR").
- **Performance materiality:** $9,442,000 (2022: $9,900,000) (Group) and $7,182,000 (2022: $8,325,000) (Company).

The scope of our audit

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

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

The key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
Valuation of claims incurred but not reported ("IBNR") reserves and the associated reinsurers' share of claims IBNR reserves (Group and Company) Refer to Notes 4(i), 20 to the Group's financial statements and Note 8 to the Company's financial statements for disclosures of related policies and balances. Claims IBNR reserves and the associated reinsurers' share of claims IBNR reserves are a subset of "claims outstanding" within technical provisions, and they represent significant accounting estimates in the financial statements. As at 31 December 2023, the value of the Group's claims IBNR reserves and the associated reinsurers' share of IBNR reserves was $1,548 million and $700 million respectively. These estimates are included within technical provisions – gross claims outstanding of $2,391 million and the reinsurers' share of claims outstanding of $1,036 million respectively as set out in Note 20. As at 31 December 2023, the value of the Company's claims IBNR reserves and the associated reinsurers' share of IBNR reserves was $999 million and $228 million respectively. These estimates are included within technical provisions – gross claims outstanding of $1,712 million and the reinsurers' share of claims outstanding of $533 million respectively as set out in Note 8 Technical Provisions – Company. The methodologies and assumptions used by the directors to estimate the Group and Company claims IBNR reserves and the associated reinsurers' share of claims IBNR reserves involves a significant degree of judgement. We consider the key drivers of this risk to be as follows: • Judgements and assumptions used in significant areas of uncertainty; • Consistency of management's approach from year-to-year; • Impact of the current economic and rating environment; • Assessment and development of large and catastrophe losses; and • Judgements and assumptions used when determining IBNR.	Using our actuarial specialists we have independently estimated gross claims reserves, and used net to gross ratios to estimate net claims reserves, for the largest and most uncertain classes of business. We used either of the following methods to test gross (and net) claims IBNR reserve: • Independent projections; and • Key indicator testing. Our procedures include: • Evaluated and tested the design and operational effectiveness of relevant controls in place; • Identified the key steps where actuarial or management judgement was required in the reserving process, e.g. assessed the difference between the best estimate and the final booked estimate, and any margins set above the best estimate; • Examined the reasonableness of the initial expected loss ratio selections for the 2023 underwriting year; • Assessed the development of prior year claims estimates, management's assessment of estimation uncertainty and any indication of management bias; • Examined conclusions regarding catastrophes and large losses to determine whether the estimate has been booked appropriately; and • Compared the results of our work to management's booked estimate on a legal entity basis. Based on the work performed and the evidence obtained we consider the methodologies and assumptions used to calculate the gross and net IBNR reserves to be appropriate.

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 90% of Group profit before tax, and over 95% of Group total assets. Based on the outputs of our audit scoping exercise, we identified the Group's components to be the Company and its subsidiaries. We performed a full scope audit of the Company and its insurance subsidiary undertaking, Tokio Marine Europe S.A., as they had the most significant impact on the consolidated financial statements. For the remaining components, we identified certain account balances which were considered to be significant in size or audit risk and scoped the audit to include detailed testing of these account balances. As the Group engagement team, we determined the level of involvement required by other auditors to be able to conclude whether sufficient and appropriate audit evidence had been obtained as a basis for our opinion on the financial statements as a whole. We exercised oversight over the work performed by other auditors by maintaining regular and timely communication, including performing video-calls, discussions, review of working papers and written communications as appropriate.

The impact of climate risk on our audit

We have made enquiries of management (both within and outside of the Group's and Company's finance function) to understand the process management adopted to assess the extent of the potential impact of climate risk on the Group's and the Company's financial statements and support the disclosures made within the notes to the financial statements. The key areas where management has evaluated that climate change has a potential to impact the business are in relation to physical risk, transitional risk and liability risk. Management considers that the impact of climate change does not give rise to a material financial statement impact.

Our knowledge of the Group and the Company was applied to evaluate management's assessment of the impact on the financial statements. An evaluation was performed of the completeness of management's assessment of climate change risk under the categories of physical risk, transition risk and liability risk and how these may affect the consolidated financial statements and the audit procedures performed. As part of this, we have reviewed the Board and the TMHCC International Sustainability Committee meeting minutes and read submissions to regulators. The risks of material misstatement to the Group's and the Company's financial statements as a result of climate change were assessed and it was concluded that for the year ended 31 December 2023, there was no impact on the key audit matters or the assessment of the risk of material misstatement.

Materiality

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

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

	Financial statements – Group	Financial statements – Company
Overall materiality	$12,590,000 (2022: $13,200,000).	$9,577,000 (2022: $11,100,000).
How we determined it	The change in net earned premium which results in 1% change of combined operating ratio excluding other technical income ("COR").	The change in net earned premium which results in 1% change of combined operating ratio excluding other technical income ("COR").
Rationale for benchmark applied	In determining materiality, we considered financial metrics which we believe relevant to the primary users of the Group's and the Company's financial statements. We concluded that the COR was the most relevant benchmark as it provides an indicator of relative performance and is a focus of the directors.	In determining materiality, we considered financial metrics which we believe relevant to the primary users of the Group's and the Company's financial statements. We concluded that the COR was the most relevant benchmark as it provides an indicator of relative performance and is a focus of the directors.

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was between $6,360,000 and $9,577,000. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2022: 75%) of overall materiality, amounting to $9,442,000 (2022: $9,900,000) for the Group financial statements and $7,182,000 (2022: $8,325,000) for the Company financial statements.

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

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above $629,500 (Group audit) (2022: $660,000) and $478,000 (Company audit) (2022: $555,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

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

- Obtaining and assessing the reasonableness of the directors' assessment, taking into consideration the Group's and the Company's year-end investment portfolio and its exposure to certain types of assets, cashflows and liquidity analysis and operational resilience;
- Considering management's assessment of the regulatory solvency coverage and liquidity position;
- Considering information obtained during the course of the audit and publicly available market information to identify any evidence that would contradict management's assessment of going concern;
- Inquiring and auditing actions taken by management to mitigate the impacts of economic uncertainty including review of Risk and Capital Management Committee minutes and attendance of all Audit Committees; and
- Assessing the appropriateness of disclosure made by management in the Directors' Report regarding the Group's and Company's ability to continue as a going concern for at least 12 months from the date of approval of these financial statements.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and the Company's ability to continue as a going concern for a period of at least 12 months from when the financial statements are authorised for issue.

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

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

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

Reporting on other information

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

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

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

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

Strategic report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the year ended 31 December 2023 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, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

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

Based on our understanding of the Group and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK regulatory principles, such as those governed by the Prudential Regulation Authority and the Financial Conduct Authority as well as regulatory principles in Luxembourg, 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 financial statements such as Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to management override of controls, including manual journals and management bias in accounting estimates in respect of pipeline premiums and insurance claims outstanding. 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 Group's legal function, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Challenging assumptions and judgements made by management in their significant accounting estimates, in particular in relation to valuation of the IBNR component of claims outstanding and pipeline premiums;
- Assessing matters reported on the Group's whistleblowing helpline and fraud register and the results of management's investigation of such matters;
- Reading key correspondence with the Prudential Regulation Authority and the Financial Conduct Authority in relation to compliance with relevant laws and regulations;
- Reviewing relevant meeting minutes including those of the Audit Committee;
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations or posted by unexpected users;
- Designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing; and
- Testing any transactions entered into outside of the normal course of the Group's business.

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

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit Committee, we were appointed by the directors on 14 July 2005 to audit the financial statements for the year ended 31 December 2005 and subsequent financial periods. The period of total uninterrupted engagement is 19 years, covering the years ended 31 December 2005 to 31 December 2023.

Philip Watson
(Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

London

5 April 2024

Financial statements

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

For the year ended 31 December 2023

Technical account – general business	Note	2023 $'000	2022 $'000
Earned premiums, net of reinsurance			
Gross premiums written	6	1,783,258	1,681,274
Outward reinsurance premiums		(638,740)	(589,496)
Net premiums written		**1,144,518**	**1,091,778**
Change in the gross provision for unearned premiums	20	(34,608)	2,533
Change in the provision for unearned premiums, reinsurers' share	20	5,040	(6,310)
Change in the net provision for unearned premiums		**(29,568)**	**(3,777)**
Earned premiums, net of reinsurance		**1,114,950**	**1,088,001**
Allocated investment return transferred from the non-technical account		54,535	34,993
Other technical income	11	15,513	12,619
Total technical income		**1,184,998**	**1,135,613**
Claims incurred, net of reinsurance			
Claims paid:			
– gross amount		(569,183)	(478,885)
– reinsurers' share		244,728	163,759
Net claims paid		**(324,455)**	**(315,126)**
Change in the provision for claims:			
– gross amount	20	(320,599)	(369,607)
– reinsurers' share	20	80,050	160,500
Change in the net provision for claims		**(240,549)**	**(209,107)**
Claims incurred, net of reinsurance		**(565,004)**	**(524,233)**
Net operating expenses	8	(411,017)	(356,355)
Total technical charges		**(976,021)**	**(880,588)**
Balance on the technical account for general business	**6**	**208,977**	**255,025**

All results derive from continuing operations.

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

For the year ended 31 December 2023

Non-technical account	Note	2023 $'000	2022 $'000
Balance on the technical account for general business		208,977	255,025
Investment Income:			
- Income from other financial investments		58,546	37,836
Investment expenses and charges		(4,011)	(2,843)
Unrealised gains/(losses) on financial investments		79,093	(234,219)
Allocated investment return transferred to the general business technical account		(54,535)	(34,993)
Other income		5,047	608
		84,140	(233,611)
Net foreign exchange loss	7	(6,846)	(6,869)
Other charges	10	(32,523)	(24,149)
Profit/(loss) on ordinary activities before tax		253,748	(9,604)
Tax charge on profit/(loss) on ordinary activities	12	(62,588)	(5,742)
Profit/(loss) for the financial year		**191,160**	**(15,346)**

Consolidated Statement of Other Comprehensive Income

For the year ended 31 December 2023

	Note	2023 $'000	2022 $'000
Profit/(loss) for the financial year		191,160	(15,346)
Currency translation differences		1,899	(3,228)
Total Consolidated comprehensive income/(loss)		**193,059**	**(18,574)**

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

All results derive from continuing operations.

Consolidated Balance Sheet

As at 31 December 2023

Assets	Note	2023 $'000	2022 $'000
Intangible assets			
Goodwill	13	69,004	75,927
Other intangible assets	13	37,824	41,435
		106,828	117,362
Investments			
Land and buildings		55	239
Other financial investments	14	2,472,432	1,982,900
		2,472,487	1,983,139
Reinsurers' share of technical provisions			
Provision for unearned premiums	20	227,449	216,466
Claims outstanding	20	1,035,873	926,539
		1,263,322	1,143,005
Debtors			
Debtors arising out of direct insurance operations			
– Policyholders		23,166	10,163
- Intermediaries		327,294	328,449
Debtors arising out of reinsurance operations		297,493	258,693
Other debtors	16	48,953	82,516
		696,906	679,821
Other assets			
Tangible assets	17	7,417	7,239
Deposits from third parties		183,819	150,478
Cash at bank and in hand		100,052	122,154
		291,288	279,871
Prepayments and accrued income			
Accrued interest		20,418	14,910
Deferred acquisition costs	20	153,194	135,488
		173,612	150,398
Total Assets		**5,004,443**	**4,353,596**

Consolidated Balance Sheet

As at 31 December 2023

Liabilities	Note	2023 $'000	2022 $'000
Capital and reserves			
Called up share capital	18	233,242	233,242
Share premium		19,115	19,115
Merger reserve		(19,115)	(19,115)
Currency exchange reserve		(1,420)	(3,319)
Profit and loss account		960,263	769,103
Total shareholder's equity		**1,192,085**	**999,026**
Technical provisions			
Provision for unearned premiums	20	765,233	708,201
Claims outstanding	20	2,391,382	1,992,435
		3,156,615	2,700,636
Creditors – amounts due within one year			
Creditors arising out of direct insurance operations		43,103	46,412
Creditors arising out of reinsurance operations		252,832	284,513
Other creditors including taxation and social security	19	46,747	40,249
Deposits from third parties		183,890	150,547
		526,572	521,721
Accruals and deferred income			
Accruals		75,817	81,957
Deferred acquisition costs arising out of reinsurance operations	20	53,354	50,256
		129,171	132,213
Total liabilities		**5,004,443**	**4,353,596**

The financial statements on pages 80 to 121 were approved by the Board of Directors and were signed on its behalf by

K L Letsinger

Director

5 April 2024

Company registration number 1575839

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

Consolidated Statement of Changes in Shareholders' Equity

For the year ended 31 December 2023

Capital and reserves	Called up share capital $'000	Share premium $'000	Merger reserve $'000	Currency exchange reserve $'000	Profit and loss account $'000	Total equity $'000
At 1 January 2023	233,242	19,115	(19,115)	(3,319)	769,103	999,026
Profit for the financial year	-	-	-	-	191,160	191,160
Other comprehensive income	-	-	-	1,899	-	1,899
At 31 December 2023	233,242	19,115	(19,115)	(1,420)	960,263	1,192,085

Capital and reserves	Called up share capital $'000	Share premium $'000	Merger reserve $'000	Currency Exchange reserve $'000	Profit and loss account $'000	Total equity $'000
At 1 January 2022	233,242	19,115	(19,115)	(91)	899,449	1,132,600
Loss for the financial year	-	-	-	-	(15,346)	(15,346)
Other Comprehensive loss	-	-	-	(3,228)	-	(3,228)
Dividends paid	-	-	-	-	(115,000)	(115,000)
At 31 December 2022	233,242	19,115	(19,115)	(3,319)	769,103	999,026

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2023

	Note	2023 $'000	2022 $'000
Cash inflow from operating activities	21	29,870	(31,793)
Taxation paid		(51,128)	(22,388)
Net cash used in operating activities		(21,258)	(54,181)
Cash flow from investing activities			
Purchase of tangible assets		(844)	(697)
Net cash used in investing activities		(844)	(697)
Cash flow from financing activities			
Dividends paid		-	(115,000)
Net cash used in financing activities		-	(115,000)
Net decrease in cash at bank and in hand		(22,102)	(169,878)
Cash and cash equivalents at the beginning of the year		122,154	292,032
Cash and cash equivalents at the end of the year		100,052	122,154
Cash and cash equivalents consist of:			
Cash at bank and in hand		100,052	122,154
		100,052	122,154

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

Notes to the consolidated financial statements

1. General information

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

2. Basis of preparation

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

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

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

3. Summary of significant accounting policies

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

A. Basis of consolidation

The consolidated financial statements include the financial statements of HCCII and all of its subsidiary undertakings up to 31 December 2023.

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

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

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

B. Foreign currency

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

Differences arising on the revaluation of foreign currency amounts to the functional currency are recognised in the Non-technical Profit and Loss Account.

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

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

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

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

C. Insurance contracts

i. Classification of insurance

The Group issues insurance contracts that transfer significant insurance risk.

ii. Insurance transactions

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:

iii. 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.

a. 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.

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

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

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

The estimate of claims IBNR is generally subject to a greater degree of uncertainty than the estimate of the cost of settling claims already notified to the insurer, where more information about a claim event is generally available. Claims (IBNR) may not become known to the insurer until many years after the event giving rise to the claim.

Classes of business where the IBNR proportion of the total reserve is high will typically display greater variations between initial estimates and final outcomes because of the greater degree of difficulty of estimating these reserves. Classes of business where claims are typically reported relatively quickly after the event tend to display lower levels of volatility. In calculating the estimated cost of unpaid claims, the Group uses a variety of estimation techniques, generally based upon statistical analyses of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience. Allowance is made for changes or uncertainties which may create distortions in the underlying statistics, or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims including:

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

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

Large claims impacting each relevant business class are generally assessed separately, being measured on a case by case basis and projected individually, 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.

e. Reinsurance

Reinsurance to cover catastrophe exposed lines or lines with unbalanced line size to premium is purchased on a shared basis for the International insurance entities. Reinsurance premiums on excess of loss programmes are allocated across the International platforms based on gross premiums written. Reinsurance recoveries are allocated based on the share of gross losses suffered by each carrier. Purchases of the shared reinsurance programme are advised to the PRA. To protect the Group on a specific risk basis and to allow to write larger lines where necessary specific facultative reinsurance is purchased, these reinsurances protect specific risks or lines and so cost and recoveries are attributed to the entity writing the risk in question. Additionally, quota share reinsurance is purchased and allocated across the International platforms to balance line size and premium where it is prudent to do so.

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

f. Subrogation and salvage

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

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

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

E. Taxation

Taxation 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.

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.

Current and deferred tax are 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.

F. Business combinations and goodwill

Business combinations are accounted for by applying the purchase method.

Business combinations

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

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 (see note 3(L)).

Goodwill

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

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

G. Intangible assets

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

H. Tangible assets

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

Depreciation

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

- Owner occupied buildings
  50 years
- Leasehold improvements
  10 years
- Computer equipment
  3 years
- Fixtures, fittings and office equipment
  5 years

Derecognition

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

I. Impairment of non-financial assets

At each balance sheet date non-financial assets not carried at fair value are assessed to determine whether there is an indication that the asset may be impaired. If there is such an indication the recoverable amount of the asset is compared to the carrying amount of the asset and if the recoverable amount is lower an impairment loss is recognised immediately. Impairment in respect of goodwill and intangibles would be presented in Non-Technical Account in the Profit and Loss Account and in respect of any other assets, it would be presented in the Technical Account in the Profit and Loss Account.

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

If the recoverable amount of the asset (or asset's cash generating unit) is estimated to be lower than the carrying amount, the carrying amount is reduced to its recoverable amount. An impairment loss is recognised immediately in the profit and loss account unless the asset has been revalued when the amount is recognised in Other comprehensive income to the extent of any previously recognised revaluation surplus. Thereafter, any remaining in respect of goodwill and intangibles would be presented in Non-Technical Account in the Profit and Loss Account and in respect of any other assets, it would be presented in the Technical Account in the Profit and Loss Account.

If an impairment loss is subsequently reversed, the carrying amount of the asset (or asset's cash generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the revised carrying amount does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised in prior periods. Any further reversal of an impairment loss is recognised immediately, either in the Non-Technical or Technical Account in the Profit and Loss Account depending on where the original impairment loss was booked.

J. Investments in subsidiary undertakings - Company

Investments in subsidiary undertakings are stated in the balance sheet at fair value (see note O below for measurement policy) with changes in fair value recognised in Other comprehensive income, or, if an impairment expense, in the Profit and Loss Account and presented in Non-Technical Account.

K. Cash and cash equivalents

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

A company within the Group also manages claims funds of $31.2 million on behalf of third-party insurers. These are held in fiduciary accounts and any associated credit risk remains with the third-party insurers. Accordingly, these amounts are not included on the balance sheet of the Group.

L. Contingencies

Contingent liabilities arise as a result of past events when:

(i) 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

(ii) 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.

M. Financial instruments

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

N. Financial assets

The Group classifies its financial assets into the following categories:

- Shares and other variable yield

securities - at fair value through profit or loss;

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

Management determines the classification of its investments at initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Group intends to sell in the short term or that it has designated at fair value through profit or loss. Loans and receivables are initially recognised at transaction price, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest. Such assets are subsequently measured at amortised cost using the effective interest rate method. Receivables arising from insurance contracts are 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.

Fair value through profit or loss

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

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

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

O. Valuation of fair value assets

FRS 102 defines the disclosure of fair value assets levels as follows:

- Level 1 – Inputs are based on quoted prices in active markets; These financial instruments are traded in active markets whose fair value is based on quoted bid prices at the balance sheet date
- Level 2 – Recent transactions in an identical or similar asset in the absence of quoted prices in active markets at the balance sheet date or are derived from or corroborated by observable market data;

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

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

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

1) evaluation of the underlying methodologies;

2) analytical review of the Group's fair values against current market prices; and

3) 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 2023 or at 31 December 2022.

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

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

P. 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.

Financial liabilities are creditors and are recognised initially at fair value, net of directly attributable transaction costs.

Q. Investment return

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

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

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

R. Share capital

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

S. 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.

T. Share premium

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

U. Merger reserve

Merger reserve arose as a result of a merger between a subsidiary of the group and a business within the TM Group which was accounted for under the merger accounting method. The valuation of the business within the TM Group 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 (see note 3 (T)).

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.

Significant estimate assumptions in applying 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 $1,355.5m (2022: $1,065.9m), see Note 20 for net claims outstanding. 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. 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 advice, experience of development of similar claims, historical experience, case law and legislative and judicial actions.

Full analyses of reserves take place at least annually. During the full analyses, attritional claims and large losses gross and net of reinsurance are projected to ultimate using the following four standard actuarial methods: Paid Chain Ladder, Incurred Chain Ladder, Incurred Bornhuetter-Ferguson and Loss Ratio method. The method selected depends on the accident or underwriting year, gross or net of reinsurance perspective and the line of business. Generally, for more developed years, the Incurred Chain Ladder is used and for less developed years, the Incurred Bornhuetter-Ferguson method is used. For the years where the Incurred Bornhuetter-Ferguson or Loss Ratio method is used, the ultimate claim projected is sensitive to the Initial Expected Ultimate Loss Ratio assumption (also referred to as the 'prior loss ratio' assumption).

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

II. Fair value of financial instruments

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

If quoted prices are unavailable, observable prices for recent arm's length transactions for an identical asset are used to determine its fair value and classified as level 2. The carrying value of these level 2 instruments is $2,306.3m (2022: $1,886.9m), see Note 15 and Note 3(O) for measurement policy. 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. Pipeline premium

The Group makes an estimate of premiums written on a policy by policy basis. Pipeline premium is the difference between estimated premium and booked premium. For the majority of lines written, premium is adjusted to equal booked premiums two years post expiry of cover. Pipeline premium is recorded within gross written premium and an assessment is made of the related unearned premium provision and an estimate of claims incurred but not reported in respect of the earned element. The pipeline premium included within net written premium for the year is $281.0m (2022: $246.7m).

5. Risk management

The Group has identified the risks arising from its activities and has established policies and procedures to manage these risks in accordance with its risk appetite. The Group maintains a risk register and categorises its risks into six areas: Insurance; Strategic, Regulatory and Group; Market; Operational; Credit; 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. HCCII disclosures are included within the notes to the company financial statements.

5.1 Insurance risk

The Group's insurance business assumes the risk of loss from persons or organisations that are themselves directly exposed to an underlying loss. Insurance risk arises from the Group's assumption of this risk due to inherent uncertainties about the occurrence, amount and timing of insurance liabilities. The four key components of insurance risk are underwriting, 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 and third parties 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 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 shareholders' equity ('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.

The Group continues to monitor developing risk events. These include: 1) actual or potential geopolitical tensions around the world including Russia-Ukraine, Israel-Hamas and China-Taiwan; and 2) the increasing speed of technological advancement, such as the rising profile surrounding generative AI. Regarding the current conflicts between Russia-Ukraine and Israel-Hamas, the impact on the Group continues to be limited with only a few classes of business having direct exposure. The main indirect exposure has been market volatility driven by the continuing economic impacts arising from these situations, However, the Group's cautious investment strategy, long-term focus and a general policy of holding investments to maturity mean that the current state of affairs is unlikely to cause any material long-term issues from an investment perspective. Other indirect exposures are limited by the Group's robust operational frameworks. The impact of the conflicts on future business is expected to remain limited.

ii. Reinsurance risk

Reinsurance risk arises where reinsurance contracts:

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

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

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

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

iii. Claims management risk

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

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

iv. Reserving risk

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

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

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

Gross and net development triangles of the estimate of ultimate claim cost for claims notified in a given year are presented below for the Group and give an indication of the accuracy of the Group's estimation technique for claims payments. Data has been translated using 31 December 2023 foreign exchange rates throughout the triangle.

Loss development triangles – GROSS Ultimate claims and cumulative payments	2015 $'000	2016 $'000	2017 $'000	2018 $'000	2019 $'000	2020 $'000	2021 $'000	2022 $'000	2023 $'000	Total $'000
					Accident year					
End of reporting year	187,989	260,569	256,550	281,605	497,269	569,221	701,131	811,549	854,060	
- one year later	219,683	262,070	255,286	365,836	576,613	644,980	742,591	806,944	-	
- two years later	239,720	255,532	272,861	367,707	599,437	637,714	745,318	-	-	
- three years later	229,684	316,247	298,980	370,984	572,862	702,080	-	-	-	
- four years later	235,035	311,266	270,293	375,607	539,750	-	-	-	-	
- five years later	215,759	323,303	288,844	377,626	-	-	-	-	-	
- six years later	236,801	321,755	289,587	-	-	-	-	-	-	
- seven years later	247,863	317,446	-	-	-	-	-	-	-	
- eight years later	251,120	-	-	-	-	-	-	-	-	
Current estimate of ultimate claims	251,120	317,446	289,587	377,626	539,750	702,080	745,318	806,944	854,060	
Cumulative payments to date	235,187	316,831	273,054	274,025	400,289	395,364	328,975	258,263	111,334	
Liability recognised in the balance sheet	15,933	615	16,533	103,601	139,461	306,716	416,343	548,681	742,726	2,290,609
Provision in respect of previous years										100,773
Total provision included in the balance sheet										**2,391,382**

Loss development triangles – NET Ultimate claims and cumulative payments	2015 $'000	2016 $'000	2017 $'000	2018 $'000	2019 $'000	2020 $'000	2021 $'000	2022 $'000	2023 $'000	Total $'000
					Accident year					
End of reporting year	146,953	190,346	197,076	214,737	284,610	293,298	388,383	517,033	526,558	
- one year later	160,399	188,125	206,446	258,534	305,229	314,368	378,360	521,009	-	
- two years later	157,988	179,651	206,368	265,308	280,166	321,313	381,105	-	-	
- three years later	152,463	215,695	224,715	268,679	246,682	348,128	-	-	-	
- four years later	157,459	211,729	200,482	271,835	241,107	-	-	-	-	
- five years later	148,042	224,179	217,320	272,069	-	-	-	-	-	
- six years later	158,688	234,899	223,285	-	-	-	-	-	-	
- seven years later	157,830	236,668	-	-	-	-	-	-	-	
- eight years later	160,697	-	-	-	-	-	-	-	-	
Current estimate of ultimate claims	160,697	236,668	223,285	272,069	241,107	348,128	381,105	521,009	526,558	
Cumulative payments to date	146,195	215,966	211,261	220,545	205,839	205,337	167,525	166,173	82,635	
Liability recognised in the balance sheet	14,502	20,702	12,024	51,524	35,268	142,791	213,580	354,836	443,923	1,289,150
Provision in respect of previous years										66,359
Total provision included in the balance sheet										**1,355,509**

5.2 Strategic, regulatory and group risk

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

i. Strategic risk

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

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

ii. Regulatory risk

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

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, Solvency UK Standard Formula Solvency Capital Requirement (SF SCR) is used as the measure for required regulatory capital for the Group and HCCII. The Board has reviewed the SF SCRs against the ECMs and has concluded that the SF SCRs are appropriate. The SF SCRs are measured against the Solvency UK Own Funds to monitor solvency ratios. Given the inherent volatility of the SF SCR and Solvency UK Own Funds, the Group carried an amount in excess of the regulatory minimum. At 31 December 2023, the Group Solvency II available assets are 484% (2022: 422%) of the regulatory minimum capital requirement and 144% (2022: 115%) of the SF SCR.

iii. Group risk

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

Contagion

Contagion risk is the risk arising from actions of one part of a group which could adversely affect any other part of the group. HCCII and Group are members of various groups, including TMHCC International, the TMHCC Group and the wider TM Group, and they 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 various groups to ensure all relevant entities are well informed and working to common goals.

Reputation

Reputation risk is the risk of negative publicity as a result of the TMHCC Group's or the wider 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 Tokio Marine brand are significant.

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

5.3 Market risk

Market risk arises where the value of assets and liabilities or future cash flows change as a result of fluctuations in economic variables, such as movements in foreign exchange rates, interest rates and market prices. Managing investment risk as a whole is fundamental to the operation and development of the Group's investment strategy and is 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 2023, the investment risk budget was re-confirmed as the amount of an investment loss, at the 1-in-200 Tail Value at Risk (TVaR) level and would be no more than the Group's excess capital (above the regulatory minimum). The investment risk appetite for 2024 will be consistent with 2023.

Investment strategy is consistent with this risk appetite and investment risk is monitored on an ongoing basis. The Group's internal regulatory capital model includes an asset risk module, which uses an Economic Scenario Generator 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 UK & 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.

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

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

In 2023, the Syndicate managed its foreign exchange risk by periodically assessing its non-US Dollar exposures and rebalancing where appropriate.

FX risk exposure 31 December 2023	AUD $ $'000	CAD $ $'000	CHF Fr $'000	EUR € $'000	GBP £ $'000	Subtotal $'000	USD $ $'000	Total $'000
Total assets	114,987	10,817	43,514	1,229,473	1,179,397	2,578,188	2,426,255	5,004,443
Total liabilities	(127,095)	(14,852)	(34,270)	(1,288,304)	(1,355,469)	(2,819,990)	(992,368)	(3,812,358)
Net (liability)/assets	**(12,108)**	**(4,035)**	**9,244**	**(58,831)**	**(176,072)**	**(241,802)**	**1,433,887**	**1,192,085**
Net profit/(loss)	**3,490**	**2,221**	**(837)**	**10,406**	**(111,686)**	**(96,406)**	**287,566**	**191,160**

FX risk exposure 31 December 2022	AUD $ $'000	CAD $ $'000	CHF Fr $'000	EUR € $'000	GBP £ $'000	Subtotal $'000	USD $ $'000	Total $'000
Total assets	106,991	11,061	40,670	1,110,307	917,301	2,186,330	2,167,266	4,353,596
Total liabilities	(122,642)	(11,779)	(30,589)	(1,179,899)	(986,512)	(2,331,421)	(1,023,149)	(3,354,570)
Net (liability)/assets	**(15,651)**	**(718)**	**10,081**	**(69,592)**	**(69,211)**	**(145,091)**	**1,144,117**	**999,026**
Net profit/(loss)	**(2,491)**	**1,764**	**4,268**	**17,765**	**(14,993)**	**6,313**	**(21,659)**	**(15,346)**

Sensitivity analysis

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

FX risk exposure – sensitivity	Impact on profit after tax		Impact on net assets	
Change in exchange rate of Canadian Dollar, Australian Dollar, Swiss Franc, Euro and Sterling, relative to US Dollar	2023 $'000	2022 $'000	2023 $'000	2022 $'000
US Dollar weakens 30% against other currencies	(23,427)	1,534	(72,541)	(43,527)
US Dollar weakens 20% against other currencies	(15,618)	1,023	(48,360)	(29,018)
US Dollar weakens 10% against other currencies	(7,809)	511	(24,180)	(14,509)
US Dollar strengthens 10% against other currencies	7,809	(511)	24,180	14,509
US Dollar strengthens 20% against other currencies	15,618	(1,023)	48,360	29,018
US Dollar strengthens 30% against other currencies	23,427	(1,534)	72,541	43,527

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 holding 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 duration 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 2023	<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	Non-interest bearing $'000	Total $'000
Variable yield securities	65,627	-	-	-	-	-	-	-	65,627
Debt securities	289,742	270,071	381,291	408,918	293,841	192,540	469,876	-	2,306,279
Other investments	-	-	-	-	-	-	-	100,526	100,526
Total other financial investments	**355,369**	**270,071**	**381,291**	**408,918**	**293,841**	**192,540**	**469,876**	**100,526**	**2,472,432**
Deposits from third parties	183,819	-	-	-	-	-	-	-	183,819
Cash at bank	100,052	-	-	-	-	-	-	-	100,052
Total	**639,240**	**270,071**	**381,291**	**408,918**	**293,841**	**192,540**	**469,876**	**100,526**	**2,756,303**

Investments and cash – duration 31 December 2022	<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	50,846	-	-	-	-	-	-	-	50,846
Debt securities	129,062	278,731	217,292	415,276	213,036	190,085	392,584	-	1,836,066
Other investments	-	-	-	-	-	-	-	95,988	95,988
Total other financial investments	**179,908**	**278,731**	**217,292**	**415,276**	**213,036**	**190,085**	**392,584**	**95,988**	**1,982,900**
Deposits from third parties	150,478	-	-	-	-	-	-	-	150,478
Cash at bank	122,154	-	-	-	-	-	-	-	122,154
Total	**452,540**	**278,731**	**217,292**	**415,276**	**213,036**	**190,085**	**392,584**	**95,988**	**2,255,532**

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	Impact on profit after tax		Impact on net assets	
Shift in yield (basis points)	2023 $'000	2022 $'000	2023 $'000	2022 $'000
100 basis point increase	(90,681)	(77,411)	(90,681)	(77,411)
50 basis point increase	(45,991)	(39,394)	(45,991)	(39,394)
50 basis point decrease	47,195	40,742	47,195	40,742
100 basis point decrease	95,506	82,781	95,506	82,781

5.4 Operational risk

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

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

- modelling of operational risk exposures 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, including the recent and up-coming requirements of Fair Value and Consumer Duty regulations. 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 Group's compliance function which undertakes scheduled reviews as part of a comprehensive compliance monitoring schedule.

Operational resilience

Following the closure of the Operational Resilience project and the successful transfer of responsibility to the Operational Resilience Office created in October 2022, work has continued to close identified gaps to ensure that the Group will be compliant with the regulations by March 2025.

The annual self-assessment exercise in March 2023 confirmed that the work was on track to meet the required regulatory deadlines.

5.5 Credit risk

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

- reinsurers – whereby reinsurers may fail to pay valid claims against a reinsurance contract held by the Group;
- brokers and coverholders – whereby counterparties fail to pass on premiums or claims collected or paid on behalf of the Group;
- investments – whereby issuer default results in the Group losing all or part of the value of a financial instrument; and
- financial institutions holding cash - whereby financial institutions default results in the Group losing all or part of the value of 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 after onboarding their performance is carefully monitored. Regular exception reports highlight trading with non-approved brokers, and the Group's credit control function frequently assesses the ageing and collectability of debtor balances. Any large, aged items are prioritised and where collection is outsourced incentives are in place to support these priorities.

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

The Group has developed processes to formally examine all reinsurers before entering into new business arrangements. New reinsurers are approved by the reinsurance approval group, which also reviews arrangements with all existing reinsurers at least annually. Vulnerable or slow-paying reinsurers are examined more frequently, and collateral is taken to mitigate the Group's credit risk exposure. As at 31 December 2023 US$ 1,605k (2022: $4,723k) of collateral was held by the Group. To assist in the understanding of credit risks, A.M. Best, Moody's and Standard & Poor's (S&P) ratings are used. The Group's concentrations of credit risk have been categorised by these ratings in the following table.

Investments, reinsurance assets and cash – credit ratings 31 December 2023	**AAA $'000**	**AA $'000**	**A $'000**	**BBB $'000**	**BB $'000**	**Not rated $'000**	**Total $'000**
Variable yield securities	65,627	-	-	-	-	-	65,627
Debt securities	165,429	871,891	800,100	459,513	9,346	-	2,306,279
Other investments	-	-	-	-	-	100,526	100,526
Total other financial investments	**231,056**	**871,891**	**800,100**	**459,513**	**9,346**	**100,526**	**2,472,432**
Reinsurers' share of technical provisions	-	523,827	707,176	-	-	32,319	1,263,322
Debtors arising out of reinsurance operations	-	85,147	199,703	-	-	12,643	297,493
Deposits from third parties	-	-	183,819	-	-	-	183,819
Cash at bank	-	-	100,052	-	-	-	100,052
Total	**231,056**	**1,480,865**	**1,990,850**	**459,513**	**9,346**	**145,488**	**4,317,118**

Investments, reinsurance assets and cash – credit ratings 31 December 2022	**AAA $'000**	**AA $'000**	**A $'000**	**BBB $'000**	**BB $'000**	**Not rated $'000**	**Total $'000**
Variable yield securities	50,846	-	-	-	-	-	50,846
Debt securities	153,681	711,421	614,523	355,197	1,244	-	1,836,066
Other investments		-	-	-	-	95,988	95,988
Total other financial investments	**204,527**	**711,421**	**614,523**	**355,197**	**1,244**	**95,988**	**1,982,900**
Reinsurers' share of technical provisions	-	431,826	699,095	-	-	12,084	1,143,005
Debtors arising out of reinsurance operations	-	93,152	161,704	-	-	3,837	258,693
Deposits from third parties	-	-	150,478	-	-	-	150,478
Cash at bank	122,154	-	-	-	-	-	122,154
Total	**326,681**	**1,236,399**	**1,625,800**	**355,197**	**1,244**	**111,909**	**3,657,230**

The Group's largest counterparty exposure is $265.2m of US Government securities (2022: $169.3m).

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 2023	Not yet due $'000	Up to 3 months past due $'000	3 – 6 months past due $'000	7 – 12 months past due $'000	> 1 year past due $'000	Total $'000
Reinsurers share of claims outstanding	1,035,873	-	-	-	-	1,035,873
Insurance debtors	272,916	51,921	14,037	5,109	6,477	350,460
Reinsurance debtors	273,862	13,241	3,618	4,638	2,134	297,493
Other debtors	48,953	-	-	-	-	48,953
Total	**1,631,604**	**65,162**	**17,655**	**9,747**	**8,611**	**1,732,779**

Financial assets – ageing 31 December 20212	Not yet due $'000	Up to 3 months past due $'000	3 – 6 months past due $'000	7 – 12 months past due $'000	> 1 year past due $'000	Total $'000
Reinsurers share of claims outstanding	926,539	-	-	-	-	926,539
Insurance debtors	256,421	59,210	13,996	6,514	2,471	338,612
Reinsurance debtors	237,652	11,773	3,377	4,053	1,838	258,693
Other debtors	82,516	-	-	-	-	82,516
Total	**1,503,128**	**70,983**	**17,373**	**10,567**	**4,309**	**1,606,360**

5.6 Liquidity risk

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

The Group's approach is to manage its liquidity position so that it can reasonably survive a significant individual or market loss event. Details of the Group's management of its exposure to loss scenarios are provided in Note 5.1.(i). This means that the Group maintains sufficient liquid assets, or assets that can be readily converted into liquid assets at short notice, to meet expected cash flow requirements. The Group can also draw on group funds to bridge short-term cash flow requirements. The following table is an analysis of the net contractual cash flows based on all the liabilities held at 31 December 2023 and 2022:

Financial liabilities – projected cash flows 31 December 2023	Within 1yr $'000	1–3 years $'000	3–5 years $'000	>5 years $'000	Total $'000
Gross claims outstanding	737,258	855,962	406,513	391,649	2,391,382
Creditors from direct insurance operations	43,103	-	-	-	43,103
Creditors from reinsurance operations	252,832	-	-	-	252,832
Other creditors	46,747	-	-	-	46,747
Total	**1,079,940**	**855,962**	**406,513**	**391,649**	**2,734,064**

Financial liabilities – projected cash flows 31 December 2022	Within 1yr $'000	1–3 years $'000	3–5 years $'000	>5 years $'000	Total $'000
Gross claims outstanding	723,643	676,592	299,483	292,717	1,992,435
Creditors from direct insurance operations	46,412	-	-	-	46,412
Creditors from reinsurance operations	284,513	-	-	-	284,513
Other creditors	40,249	-	-	-	40,249
Total	**1,094,817**	**676,592**	**299,483**	**292,717**	**2,363,609**

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 2023	Within 1yr $'000	1–3 years $'000	3–5 years $'000	>5 years $'000	N/A $'000	Total $'000
Variable yield securities	65,627	-	-	-	-	65,627
Debt securities	254,960	509,252	400,892	1,141,175	-	2,306,279
Other investments	-	-	-	-	100,526	100,526
Total other financial investments	**320,587**	**509,252**	**400,892**	**1,141,175**	**100,526**	**2,472,432**
Cash at bank	100,052	-	-	-	-	100,052
Total	**420,639**	**509,252**	**400,892**	**1,141,175**	**100,526**	**2,572,484**

Investments and cash – maturity 31 December 2022	Within 1yr $'000	1–3 years $'000	3–5 years $'000	>5 years $'000	No maturity $'000	Total $'000
Variable yield securities	50,846	-	-	-	-	50,846
Debt securities	106,969	465,446	350,730	912,921	-	1,836,066
Other investments	-	-	-	-	95,988	95,988
Total other financial investments	**157,815**	**465,446**	**350,730**	**912,921**	**95,988**	**1,982,900**
Cash at bank	122,154	-	-	-	-	122,154
Total	**279,969**	**465,446**	**350,730**	**912,921**	**95,988**	**2,105,054**

5.7 Other Current Risks

This section identifies risks that have the potential to materially impact the existing risk profiles. 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. Risks which are more imminently likely to crystallise are also monitored.

Sustainability

Sustainability risk, including climate change risk, continues to be recognised as a continuing key risk for the Group. 2023 saw further work in terms of: 1) continuing to embed Sustainability risk within its governance and risk frameworks; 2) further development of risk appetites, and risk metrics to monitor them, particularly with regard to investments; 3) further work on potential quantitative impacts of climate change, including capital assessments and impacts from Reverse Stress Tests; and 4) development of various initiatives including Business Travel initiative to allow for future CO2 emissions data capture.

Inflation

Given recent rises in interest rates and consumer prices, the issue of inflation, including social inflation, remains a current hot topic in the industry, driven by concerns over supply chains, transport costs and recruitment/ retention. Management has looked at how the risk is being mitigated in the areas of underwriting, claims, reserving and capital modelling, noting that the impact of inflation will vary widely by line of business. Explicit allowance for inflation is now incorporated within the reserving process and within the capital model. Management have concluded that the mitigations for this risk remain appropriate. In the current inflationary environment, the risk is being kept under close review.

Outsourcing & Supplier Management

Outsourcing and supplier management is a key focus for the Group, in light of greater reliance on cloud service providers and increased use of coverholders. Strong risk governance in this area is vital to ensure uninterrupted service to both external and internal stakeholders. It is also a sub-component of Supply Chain risk, which is an area subject to increased scrutiny with regulatory focus on insurers and their ability to demonstrate their operational resilience in this regard. Against a backdrop of increased digitalisation of the insurance market and escalating cyber-security threats, robust supply chain management is paramount. A central Vendor Management System has been purchased, and is being implemented, as part of a project that will enhance the performance of due diligence and monitoring against service standards. Resilience standards are also in the process of being developed to ensure that any disruption experienced by the Group's material outsourcers does not impact the service they provide to the Group.

6. Segmental information

(a) Underwriting result by class of business

2023	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	64,928	63,167	(49,942)	(19,214)	8,762	2,773
Marine, aviation and transport	244,893	256,178	(109,667)	(66,668)	(51,027)	28,816
Fire and other damage to property	194,063	191,014	(94,222)	(72,846)	(89,198)	(65,252)
Third party liability	458,242	490,162	(272,497)	(150,407)	(21,125)	46,133
Credit, political risk and suretyship	246,688	231,665	(107,179)	(79,018)	23,614	69,082
Other	111,575	75,266	(4,998)	(34,847)	(33,368)	2,053
Total direct	1,320,389	1,307,452	(638,505)	(423,000)	(162,342)	83,605
Reinsurance acceptances	462,869	441,198	(251,277)	(119,735)	(14,862)	55,324
Total	**1,783,258**	**1,748,650**	**(889,782)**	**(542,735)**	**(177,204)**	**138,929**
Investment return						54,535
Other technical income						15,513
Technical account						**208,977**

2022	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	61,484	63,368	(25,844)	(20,562)	(10,207)	6,755
Marine, aviation and transport	258,233	252,753	(199,299)	(63,607)	(2,632)	(12,785)
Fire and other damage to property	184,771	167,730	(10,346)	(60,931)	(52,239)	44,214
Third party liability	540,831	554,036	(325,419)	(152,105)	30,967	107,479
Credit, political risk and suretyship	223,342	224,143	(105,885)	(76,086)	(5,989)	36,183
Other	34,788	35,607	17,791	(15,228)	(39,736)	(1,566)
Total direct	1,303,449	1,297,637	(649,002)	(388,519)	(79,836)	180,280
Reinsurance acceptances	377,825	386,170	(199,490)	(95,665)	(63,882)	27,133
Total	**1,681,274**	**1,683,807**	**(848,492)**	**(484,184)**	**(143,718)**	**207,413**
Investment return						34,993
Other technical income						12,619
Technical account						**255,025**

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

(b) Geographical location of underwriting operations

	Gross premiums written		Profit before taxation and unrealised gains/(losses)		Profit/(Loss) before taxation		Net assets	
	2023 $'000	2022 $'000	2023 $'000	2022 $'000	2023 $'000	2022 $'000	2022 $'000	2021 $'000
United Kingdom	1,128,912	1,054,780	129,799	201,455	192,573	9,153	932,073	785,841
Rest of Europe	654,346	626,494	44,856	23,160	61,175	(18,757)	260,012	213,185
	1,783,258	1,681,274	174,655	224,615	253,748	(9,604)	1,192,085	999,026

Profit/(loss) before tax is derived after adding the unrealised gains of $79,093,000 (2022: unrealised losses of $234,219,000).

(c) Geographical location of gross premiums written by destination

	2023 $'000	2022 $'000
United Kingdom	836,798	781,154
Rest of Europe	475,722	440,981
Rest of the World	470,738	459,139
	1,783,258	1,681,274

7.Net foreign exchange loss

	2023 $'000	2022 $'000
Net foreign exchange gain in revaluation of the non-US Dollar investment portfolio	29,442	3,656
Foreign exchange (losses) on revaluation of other non-US Dollar monetary assets and liabilities	(36,288)	(10,525)
	(6,846)	(6,869)

8. Net operating expenses

	2023 $'000	2022 $'000
Commission costs	293,072	273,222
Change in deferred acquisition costs (Note 20)	(12,309)	(1,271)
Reinsurance commissions and profit participation	(131,718)	(127,829)
Earned net acquisition costs	**149,045**	**144,122**
Administrative expenses	261,972	212,233
	411,017	356,355

Total commission incurred during the year in respect of direct insurance was $232.4m (2022: $232.6m).

Staff costs

All UK based staff are employed by HCC Service Company Inc. (UK branch), a fellow TM 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 TMHCC 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	2023 $'000	2022 $'000
Wages and salaries	86,634	75,930
Social security costs	11,978	9,590
Other pension costs	6,165	6,225
	104,777	91,745

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

	2023 Number	2022 Number
Underwriting	391	343
Claims	85	62
Administration and finance	246	217
	722	622

Directors' emoluments

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

	2023 $'000	2022 $'000
Aggregate emoluments	10,040	5,373
Pension contributions	34	6
	10,074	5,379

Pension benefits are accruing to one director (2022: one) under the Group's defined contribution pension scheme.

Highest paid director	2023 $'000	2022 $'000
Aggregate emoluments	4,189	2,272
Pension contributions	-	-
	4,189	2,272

9. Auditors' remuneration

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

	2023 $'000	2022 $'000
Fees payable for auditing of the financial statements of the Group and its subsidiaries	1,707	1,506
Fees payable for audit-related assurance services	229	198
	1,936	1,704

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

10. Other charges

	2023 $'000	2021 $'000
Corporate oversight costs	16,026	9,475
Service awards	5,963	4,607
Amortisation of goodwill (Note 13)	6,923	8,578
Amortisation of intangibles (Note 13)	3,611	1,489
	32,523	24,149

Corporate oversight costs represent the recharge of staff and administrative expenses by the service companies within the group. Service awards are mainly payments made to key staff under a long-term incentive scheme.

11. Other technical income

	2023 $'000	2022 $'000
Credit limit notification services fee income	4,729	5,006
GCube and Qdos fee and commission income	5,658	4,548
HCCII and TME fee income	5,126	3,065
Other technical income	15,513	12,619

Other technical income comprises $4.7m (2022: $5.0m) for credit limit notification services conducted for Credit policyholders of HCCII by HCC Credit Services Limited. GCube and Qdos fee and commission is third party income. HCCII and TME fee income reflects predominantly fees associated with the Credit and Surety business (and to a lesser extent Professional Risks) reflecting non-insurance services offered to their customers.

12. Tax charge on (loss)/profit on ordinary activities

	2023 $'000	2022 $'000
UK Corporation tax at 23.52% (2022:19.00%)		
Current tax on income for the year	57,151	18,296
Tax in respect of prior years	(4,848)	(596)
Current tax for the year	**52,303**	**17,700**
Deferred tax – origination and reversal of timing differences	10,285	(11,958)
Tax charge on profit/(loss) on ordinary activities	62,588	5,742

The tax assessed for the year is higher (2022: higher) than the standard rate of corporation tax in the UK.
The differences are explained below:

	2023 $'000	2022 $'000
Profit/(loss) on ordinary activities before taxation	253,748	(9,604)
Tax charge/(credit) on profit/(loss) on ordinary activities before taxation at standard rate of 23.52% (2022:19.00%)	59,681	(1,825)
Expenses not deductible for tax purposes	2,741	2,931
Attribution of investment income	1,024	(1,387)
Amortisation of goodwill and intangibles	3,574	2,395
Foreign tax	652	6,743
Effect of foreign exchange	(593)	(1,671)
Tax in respect of prior years	1,044	(596)
Movement in unrecognised deferred tax asset	(3,119)	(932)
Impact of foreign tax regimes	1,134	-
Other	(3,550)	84
Tax charge on profit/(loss) on ordinary activities	62,588	5,742

13. Goodwill and other intangible assets

	Goodwill $'000	Other intangible assets $'000	Total $'000
Cost			
At 1 January 2023	103,865	54,160	158,025
At 31 December 2023	**103,865**	**54,160**	**158,025**
Accumulated amortisation			
At 1 January 2023	27,938	12,725	40,663
Charge for the year	6,923	3,611	10,534
At 31 December 2023	**34,861**	**16,336**	**51,197**
Net			
At 31 December 2023	**69,004**	**37,824**	**106,828**

	Goodwill $'000	Other intangible assets $'000	Total $'000
Cost			
At 1 January 2022	95,417	87,633	183,050
Other changes (see below)	10,096	(11,842)	(1,746)
Write-off (see below)	(1,648)	(21,631)	(23,279)
At 31 December 2022	**103,865**	**54,160**	**158,025**
Accumulated amortisation			
At 1 January 2022	21,008	32,867	53,875
Other changes (see below)	1,655	(2,122)	(467)
Charge for the year	6,923	3,611	10,534
Write-off (see below)	(1,648)	(21,631)	(23,279)
At 31 December 2022	**27,938**	**12,725**	**40,663**
Net			
At 31 December 2022	**75,927**	**41,435**	**117,362**

Goodwill and intangibles arose from the acquisition in 2020 of GCube amounted to $15.3m (2022: $15.3m) and $23.3m (2022: $23.3m) respectively. In the prior year, having revised the treatment of deferred tax at acquisition, the value of intangible assets has decreased by $5.2m and the value of goodwill has increased by $4.8m. This also resulted to a decrease in the accumulated amortisation of intangibles by $0.6m and an increase in the accumulated amortisation of goodwill of $0.5m. The carrying values at the end of the year were goodwill of $11.6m (2022: $12.6m) and intangibles of $17.7m (2022: $19.3m).

Goodwill and intangibles arose from the acquisition in 2018 of Qdos Holdings Limited and its subsidiary Qdos Broker and Underwriting Services Limited amounted to $88.6m (2022: $88.6m) and $30.9m (2022: $30.9m), respectively. In the prior year, having revised the treatment of deferred tax at acquisition, the value of intangible assets has decreased by $6.6m and the value of goodwill has increased by $5.3m. This also resulted to a decrease in the accumulated amortisation of intangibles by $1.5m and an increase in the accumulated amortisation of goodwill of $1.2m. The carrying values at the end of the year were goodwill of $57.4m (2022: $ 63.3m) and intangibles of $20.1m (2022: $22.1m).

Goodwill of £1.6m and intangibles of £21.6m which arose on the acquisition in 2006 of Manchester Dickson Holdings Limited and its subsidiaries and were fully amortised have been written off in the prior year.

14. Other financial investments

	Fair value		Book cost	
	2023 $'000	2022 $'000	2023 $'000	2022 $'000
Variable yield securities and units in unit trusts	65,627	50,846	65,627	50,846
Debt securities and other fixed-income securities	2,306,279	1,836,066	2,431,056	2,053,595
Other investments	100,526	95,988	75,358	76,079
	2,472,432	**1,982,900**	**2,572,041**	**2,180,520**

Debt securities and other fixed-income securities comprise listed investments. Other investments is an investment in a real estate investment fund.

15. Fair value estimation

The following table presents the Group's financial investments measured at fair value at 31 December 2023 and 31 December 2022 categorised into levels 1, 2 and 3, reflecting the categorization criteria specified in FRS 102 (see note 3 o). No liabilities were measured at fair value at 31 December 2023 or at 31 December 2022.

Financial investments – pricing basis	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
31 December 2023				
Variable yield securities	65,627	-	-	65,627
Debt securities	-	2,306,279	-	2,306,279
Other investments	-	-	100,526	100,526
Total other financial investments	**65,627**	**2,306,279**	**100,526**	**2,472,432**

Financial investments – pricing basis	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
31 December 2022				
Variable yield securities	-	50,846	-	50,846
Debt securities	-	1,836,066	-	1,836,066
Other investments	-	-	95,988	95,988
Total other financial investments	**-**	**1,886,912**	**95,988**	**1,982,900**

16. Other debtors

	2023 $'000	2022 $'000
Deferred tax asset	-	2,245
Claims funds	34,030	15,811
Amounts owed by group undertakings	9,091	55,806
Other debtors	5,832	8,654
	48,953	**82,516**

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.

17. 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 2023	2,523	6,039	442	4,488	13,492
Additions	10	213	241	380	844
At 31 December 2023	**2,533**	**6,252**	**683**	**4,868**	**14,336**
Accumulated depreciation					
At 1 January 2023	1,694	1,621	331	2,607	6,253
Charge for the year	93	189	97	287	666
At 31 December 2023	**1,787**	**1,810**	**428**	**2,894**	**6,919**
Net book value					
31 December 2023	**746**	**4,442**	**255**	**1,974**	**7,417**

	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 2022	2,810	5,995	428	4,355	13,588
Additions	14	44	106	533	697
Write-offs	(295)	-	(75)	(363)	(733)
Foreign exchange translation	(6)	-	(17)	(37)	(60)
At 31 December 2022	**2,523**	**6,039**	**442**	**4,488**	**13,492**
Accumulated depreciation					
At 1 January 2022	1,897	1,431	369	2,789	6,486
Charge for the year	98	190	54	218	560
Write-offs	(295)	-	(75)	(363)	(733)
Foreign exchange translation	(6)	-	(17)	(37)	(60)
At 31 December 2022	**1,694**	**1,621**	**331**	**2,607**	**6,253**
Net book value					
31 December 2022	**829**	**4,418**	**111**	**1,881**	**7,239**

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

18. Called up share capital – Group and HCCII

Allotted and fully paid ordinary shares	2023 Number of shares	2023 $'000	2021 Number of shares	2021 $'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 (2022: £1 ordinary shares) are translated to US Dollars at the rates of exchange ruling on the dates the shares were issued.

Dividends paid during the year totalled $nil (2022: $115m).

The Directors recommend a final dividend of 90 US Cents per ordinary share for the year ended 31 December 2023. Subject to approval by shareholders of the recommended final dividend, the dividend to shareholders for the year ended 31 December 2023 will total $150 million (2022: $nil). If approved, HCCII will pay the final dividend on 28 June 2024 to shareholders on the register of members at 8 April 2024.

19. Other creditors including taxation and social security

	2023 $'000	2021 $'000
Corporation tax	7,988	5,663
Net deferred tax liability	7,557	-
Amounts owed to group undertakings	28,813	20,747
Other creditors	2,389	13,839
	46,747	**40,249**

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

Net deferred tax liability/(asset)	2023 $'000	2022 $'000
At 1 January - net deferred tax (asset)/liability	(2,245)	11,275
Changes in accelerated capital allowances	(138)	83
Intangible asset	543	(1,865)
Deferred taxation of release of Equalisation provision	-	(767)
Technical reserves	9,622	(8,103)
Short-term timing differences	(4,974)	(2,379)
Losses carried forward	4,749	(489)
At 31 December - net deferred tax liability/(asset)	**7,557**	**(2,245)**

The net deferred tax liability/(asset) consists of the following amounts:

	2023 $'000	2022 $'000
Accelerated capital allowances	141	279
Intangible assets	9,661	9,118
Technical reserves	1,337	(8,285)
Short-term timing differences	(7,737)	(2,763)
Losses carried forward	4,155	(594)
Net deferred tax liability/(asset)	**7,557**	**(2,245)**

A potential Deferred Tax Asset of $25.9m (2023: $27.5m) in respect of tax losses in Spain, France and Denmark has not been recognised. This asset would be recognised and recovered should sufficient taxable profits be generated in future which would be eligible for relief against the unutilised tax losses.

20. Technical provisions – Group

	Provisions for unearned premiums $'000	Claims outstanding (1) $'000	Deferred acquisition costs (2) $'000	Net technical liabilities $'000
Gross of reinsurance				
At 1 January 2023	708,201	1,992,435	(135,488)	2,565,148
Movement in provision	34,608	320,599	(12,309)	342,898
Exchange adjustments	22,424	78,348	(5,397)	95,375
At 31 December 2023	**765,233**	**2,391,382**	**(153,194)**	**3,003,421**
Reinsurance				
At 1 January 2023	(216,466)	(926,539)	50,256	(1,092,749)
Movement in provision	(5,040)	(80,050)	1,561	(83,529)
Exchange adjustments	(5,943)	(29,284)	1,537	(33,690)
At 31 December 2023	**(227,449)**	**(1,035,873)**	**53,354**	**(1,209,968)**
Net				
At 31 December 2023	**537,784**	**1,355,509**	**(99,840)**	**1,793,453**

	Provisions for unearned premiums $'000	Claims outstanding (1) $'000	Deferred acquisition costs (2) $'000	Net technical liabilities $'000
Gross of reinsurance				
At 1 January 2022	707,350	1,712,161	(132,959)	2,286,552
Movement in provision	(2,533)	369,607	(1,271)	365,803
Exchange adjustments	3,384	(89,333)	(1,258)	(87,207)
At 31 December 2022	**708,201**	**1,992,435**	**(135,488)**	**2,565,148**
Reinsurance				
At 1 January 2022	(219,375)	(801,740)	53,844	(967,271)
Movement in provision	6,310	(160,500)	(5,867)	(160,057)
Exchange adjustments	(3,401)	35,701	2,279	34,579
At 31 December 2022	**(216,466)**	**(926,539)**	**50,256**	**(1,092,749)**
Net				
At 31 December 2022	**491,735**	**1,065,896**	**(85,232)**	**1,472,399**

(1) Claims outstanding includes claims incurred but not reported ('IBNR') reserves of $1,360.6m gross of reinsurance and $513.5m reinsurer's share of IBNR reserves (2022: $1,124.8m gross; $477.7m reinsurer's share).

21. Cash flows from operating activities

	2023 $'000	2022 $'000
Profit/(loss) before tax	253,748	(9,604)
Adjustments for:		
Non-cash movements in profit/(loss) for the year		
Amortisation of goodwill	6,923	8,578
Amortisation of other intangibles	3,611	1,489
Depreciation of tangible fixed assets	666	560
Realised and unrealised investment (gains)/losses	(78,339)	234,215
Other non-cash movement including foreign exchange	1,899	(3,228)
Investment income from participating interests and other financial	(63,593)	(38,440)
Changes in operating assets/liabilities		
Increase in debtors, prepayments and accrued income	(40,300)	(54,402)
Decrease/(increase) in creditors, accruals and deferred income	(42,995)	28,653
Increase in net technical provisions	335,662	159,235
Decrease in deposits with ceding undertakings	4	9
Cash generated from operations	**377,286**	**327,065**
Interest received	63,593	38,440
Cash flows from purchases and sales of financial investments	(411,009)	(397,298)
Net cash inflow/(outflow) from operating activities	**29,870**	**(31,793)**

22. Commitments

a. Operating lease commitments

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 $8.8m (2022: $4.7m).

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

	2023 $'000	2021 $'000
Not later than 1 year	5,438	5,377
Later than one year and not later than 5 years	13,331	13,180
Later than 5 years	3,904	3,164
	22,673	**21,721**

b. Other commitments

The Group and HCCII have commitments to subscribe into a real estate investment fund vehicle totalling $175m (2022: $175m) which at the date of the balance sheet had a balance of £66.8m (2022: £74.3m) undrawn.

23. Related party transactions

Parental Guarantee

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

Shared Reinsurance Programme

The Group shares a reinsurance programme with the other TMHCC International entities. Reinsurance premiums and recoveries are pro-rated across TMHCC 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/(payable) balance due to HCCII.

Related party	Nature of Contract	2023 Closing balance $'000	2022 Closing balance $'000
Houston Casualty Co London	Excess of loss and Quota share	(16,788)	26,713
Syndicate 4141	Excess of loss and Quota share	15,873	9,072
		(915)	**35,785**

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	2023 Gross premium $'000	2023 Closing balance $'000	2022 Gross premium $'000	2022 Closing balance $'000
Tokio Marine Insurance Singapore	Inwards reinsurance	7,027	(1)	10,563	-
Tokio Marine & Nichido Fire Insurance Co. Ltd.	Inwards reinsurance	10,044	(607)	11,425	5,541
Tokio Marine Compania De Seguros SA de CV	Inwards reinsurance	-	-	620	-
Tokio Marine Kiln Group Limited	Inwards reinsurance	(96)	-	-	86
IFFCO-Tokio General Insurance Company Limited	Inwards reinsurance	-	-	262	-
Singapore Airlines	Inwards reinsurance	60	3	56	3
Tokio Marine America	Inwards reinsurance	-	-	4	-
		17,035	(605)	22,930	5,630

Related party – outward reinsurance	Nature of Contract	2023 RI premium $'000	2023 Closing balance $'000	2022 RI premium $'000	2022 Closing balance $'000
Tokio Marine & Nichido Fire Insurance Co. Ltd.	Outwards reinsurance	181,665	29,670	166,061	44,497
Lloyd's Syndicate 1880	Outwards reinsurance	2,544	538	1,071	130
Tokio Marine GRV Re	Outwards reinsurance	8,482	8,450	8,504	4,466
Tokio Marine Kiln Insurance Limited	Outwards reinsurance	115	568	(336)	(328)
Lloyd's Syndicate 510	Outwards reinsurance	10,188	4,390	4,704	1,979
Houston Casualty Company	Outwards reinsurance	-	(2,778)	-	14,197
Tokio Marine America	Outwards reinsurance	-	-	104	-
		202,994	40,838	180,108	64,941

Agency commission

The Group delegates underwriting authorities to an agency within the wider TM Group for which it pays a commission. This is detailed in the table below.

Related party	Nature of Contract	2023 Commission $'000	2023 Closing balance $'000	2022 Commission $'000	2022 Closing balance $'000
HCC Specialty Ltd	Underwriting agency	112	-	2,284	455

The agency has been dissolved in the current year.

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 in addition to the staff costs mentioned in note 8. These are detailed in the table below.

Related party	Nature of Contract	2023 Expenses incurred $'000	2023 Closing balance $'000	2022 Expenses incurred $'000	2022 Closing balance $'000
HCC Service Company Inc. (UK branch)	Provision of central administrative services	112,032	(18,806)	98,475	(12,701)

Other related party balances

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

Related party	2023 $'000	2022 $'000
HCC Insurance Holdings, Inc	(3)	(4)
HCC Service Company, Inc.	(3,100)	(2,618)
U.S. Specialty Insurance Co	265	1,338
NameCo (No. 808) Ltd.	(266)	4,348
HCCUA	382	-
Rattner Mackenzie Limited	(1,753)	(1,756)
HCC Re Agency	221	204
Total	**(4,254)**	**1,512**

Key management compensation

The key management of the Group are considered to be the statutory directors of HCCII. Note 8, Net operating expenses, gives details of their compensation as directors of HCCII.

24. 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.

25. Post balance sheet events

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

Company Balance Sheet

As at 31 December 2023

ASSETS	Note	2023 $'000	2022 $'000
Assets			
Investments			
Land and buildings		55	239
Investment in subsidiary undertakings	3	464,816	371,777
Other financial investments	4	2,006,209	1,592,744
		2,471,080	1,964,760
Reinsurers' share of technical provisions			
Provision for unearned premiums	8	120,703	112,356
Claims outstanding	8	532,905	411,271
		653,608	523,627
Debtors			
Debtors arising out of direct insurance operations			
- Policyholders		2,057	5,334
- Intermediaries		192,000	176,965
Debtors arising out of reinsurance operations		138,936	185,444
Other debtors	5	109,567	71,952
		442,560	439,695
Other assets			
Tangible assets	6	5,663	5,325
Deposits from third parties		151,770	93,285
Cash at bank and in hand		49,793	59,826
		207,226	158,436
Prepayments and accrued income			
Accrued interest		15,724	11,402
Deferred acquisition costs	8	123,599	111,171
		139,323	122,573
Total assets		**3,913,797**	**3,209,091**

Company Balance Sheet

As at 31 December 2023

LIABILITIES	Note	2023 $'000	2022 $'000
Capital and reserves			
Called up share capital	18	233,242	233,242
Share premium		19,115	19,115
Revaluation reserve		55,414	(37,623)
Profit and loss account		958,805	820,651
Total shareholders' funds		1,266,576	1,035,385
Technical provisions			
Provision for unearned premiums	8	555,662	513,813
Claims outstanding	8	1,712,456	1,337,505
		2,268,118	1,851,318
Creditors – amounts due within one year			
Creditors arising out of direct insurance operations		11,917	16,820
Creditors arising out of reinsurance operations		131,424	132,502
Other creditors including taxation and social security	7	30,411	18,874
Deposits from third parties		151,769	93,284
		325,521	261,480
Accruals and deferred income			
Accruals		29,236	37,904
Deferred acquisition costs arising out of reinsurance operations	8	24,346	23,004
		53,582	60,908
Total liabilities		**3,913,797**	**3,209,091**

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 $138.2m (2022: $21.1million).

Company Statement of Changes in Shareholders' Equity

For the year ended 31 December 2023

Capital and reserves	Called up share capital $'000	Share premium $'000	Revaluation reserve $'000	Profit and loss account $'000	Total shareholders' equity $'000
At 1 January 2023	233,242	19,115	(37,623)	820,651	1,035,385
Profit for the financial year	-	-	-	138,154	138,154
Revaluation of subsidiary undertakings	-	-	93,037	-	93,037
At 31 December 2023	233,242	19,115	55,414	958,805	1,266,576

Capital and reserves	Called up share capital $'000	Share premium $'000	Revaluation reserve $'000	Profit and loss account $'000	Total shareholders' equity $'000
At 1 January 2022	233,242	19,115	17,919	914,582	1,184,858
Profit for the financial year	-	-	-	21,069	21,069
Revaluation of subsidiary undertakings	-	-	(55,542)	-	(55,542)
Dividends paid	-	-	-	(115,000)	(115,000)
At 31 December 2022	233,242	19,115	(37,623)	820,651	1,035,385

Notes to the Company Financial Statements

1. Summary of significant accounting policies

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

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

A. Basis of Preparation

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

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

B. Exemptions for qualifying entities under FRS 102

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

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

ii. Related party disclosures, and

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

C. Investments in subsidiary undertakings

Investments in subsidiary undertakings are stated in the balance sheet at fair value and categorised into level 3, reflecting the categorisation criteria specified in FRS 102 (see note 3(O)) with changes in fair value recognised through the statement of other comprehensive income and revaluation reserve, or, if an impairment expense, through the profit and loss account.

2. Risk management

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

2.1 Insurance risk

Reserving risk

Gross and net development triangles of the estimate of ultimate claim cost for claims notified in a given year are presented below for HCCII. Data has been translated using 31 December 2023 foreign exchange rates throughout the triangle.

	Accident year									
Loss development triangles – GROSS Ultimate claims and cumulative payments	**2015 $'000**	**2016 $'000**	**2017 $'000**	**2018 $'000**	**2019 $'000**	**2020 $'000**	**2021 $'000**	**2022 $'000**	**2023 $'000**	**Total $'000**
End of reporting year	187,989	260,569	256,550	281,605	350,978	360,058	403,742	541,935	598,655	-
- one year later	219,683	262,070	255,286	285,787	408,680	410,315	397,189	526,999	-	-
- two years later	239,720	255,532	252,252	284,726	418,419	412,425	419,521	-	-	-
- three years later	229,684	295,975	279,594	287,545	389,392	479,985	-	-	-	-
- four years later	235,565	296,361	250,958	294,958	380,837	-	-	-	-	-
- five years later	215,052	313,931	264,032	298,799	-	-	-	-	-	-
- six years later	220,291	319,500	267,967	-	-	-	-	-	-	-
- seven years later	230,208	319,384	-	-	-	-	-	-	-	-
- eight years later	237,545	-	-	-	-	-	-	-	-	-
Current estimate of ultimate claims	237,545	319,384	267,967	298,799	380,837	479,985	419,521	526,999	598,655	-
Cumulative payments to date	210,157	313,345	255,732	237,257	278,515	226,757	138,674	136,293	71,568	-
Liability recognised in the balance sheet	27,388	6,039	12,235	61,542	102,322	253,228	280,847	390,706	527,087	1,661,394
Provision in respect of previous years										51,062
Total provision included in the balance sheet										**1,712,456**

Loss development triangles – NET Ultimate claims and cumulative payments	2015 $'000	2016 $'000	2017 $'000	2018 $'000	2019 $'000	2020 $'000	2021 $'000	2022 $'000	2023 $'000	Total $'000
	Accident year									
End of reporting year	146,953	190,346	197,076	214,737	249,352	226,880	297,627	426,748	455,551	
- one year later	160,399	188,125	206,446	213,091	256,681	253,708	262,819	416,346	-	
- two years later	157,988	179,651	189,775	218,433	229,964	258,985	279,979	-	-	
- three years later	152,463	202,337	208,208	222,096	195,174	277,916	-	-	-	
- four years later	150,023	198,453	183,490	225,376	199,936	-	-	-	-	
- five years later	140,729	211,045	200,586	223,562	-	-	-	-	-	
- six years later	151,169	221,877	205,548	-	-	-	-	-	-	
- seven years later	150,332	223,501	-	-	-	-	-	-	-	
- eight years later	151,790	-	-	-	-	-	-	-	-	
Current estimate of ultimate claims	151,790	223,501	205,548	223,562	199,936	277,916	279,979	416,346	455,551	
Cumulative payments to date	138,134	203,366	195,121	177,421	174,668	147,493	96,798	110,501	65,683	
Liability recognised in the balance sheet	13,656	20,135	10,427	46,141	25,268	130,423	183,181	305,845	389,868	1,124,944
Provision in respect of previous years										54,607
Total provision included in the balance sheet										**1,179,551**

2.2 Market risk

i. Foreign exchange risk

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

FX risk exposure 31 December 2023	AUD $ $'000	CAD $ $'000	CHF Fr $'000	EUR € $'000	GBP £ $'000	Subtotal $'000	USD $ $'000	Total $'000
Total assets	108,371	8,794	42,769	-	299,481	459,415	3,454,382	3,913,797
Total liabilities	(121,788)	(12,675)	(34,093)	-	(351,568)	(520,124)	(2,127,097)	(2,647,221)
Net assets	**(13,417)**	**(3,881)**	**8,676**	**-**	**(52,087)**	**(60,709)**	**1,327,285**	**1,266,576**

FX risk exposure 31 December 2022	AUD $ $'000	CAD $ $'000	CHF Fr $'000	EUR € $'000	GBP £ $'000	Subtotal $'000	USD $ $'000	Total $'000
Total assets	97,788	9,174	39,440	234,325	949,530	1,330,257	1,878,834	3,209,091
Total liabilities	(117,128)	(9,814)	(30,515)	(271,911)	(947,398)	(1,376,766)	(796,940)	(2,173,706)
Net assets	**(19,340)**	**(640)**	**8,925**	**(37,586)**	**2,132**	**(46,509)**	**1,081,894**	**1,035,385**

Sensitivity analysis

Fluctuations in HCCII'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	Impact on profit after tax		Impact on net assets	
Change in exchange rate of Canadian Dollar, Australian Dollar, Swiss Franc, Euro and Sterling, relative to US Dollar	2023 $'000	2022 $'000	2023 $'000	2022 $'000
US Dollar weakens 30% against other currencies	(1,587)	6,805	(18,213)	(13,953)
US Dollar weakens 20% against other currencies	(1,058)	4,536	(12,142)	(9,302)
US Dollar weakens 10% against other currencies	(529)	2,268	(6,071)	(4,651)
US Dollar strengthens 10% against other currencies	529	(2,268)	6,071	4,651
US Dollar strengthens 20% against other currencies	1,058	(4,536)	12,142	9,302
US Dollar strengthens 30% against other currencies	1,587	(6,805)	18,213	13,953

ii. Interest rate risk

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

Investments and cash – duration 31 December 2023	<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	Non-interest bearing $'000	Total $'000
Variable yield securities	61,413	-	-	-	-	-	-	-	61,413
Debt securities	228,849	217,576	299,737	339,023	220,811	81,768	456,506	-	1,844,270
Other investments	-	-	-	-	-	-	-	100,526	100,526
Total other financial investments	**290,262**	**217,576**	**299,737**	**339,023**	**220,811**	**81,768**	**456,506**	**100,526**	**2,006,209**
Deposits from third parties	151,770	-	-	-	-	-	-	-	151,770
Cash at bank	49,793	-	-	-	-	-	-	-	49,793
Total	**491,825**	**217,576**	**299,737**	**339,023**	**220,811**	**81,768**	**456,506**	**100,526**	**2,207,772**

Investments and cash – duration 31 December 2022	<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	Non-interest bearing $'000	Total $'000
Variable yield securities	25,534	-	-	-	-	-	-	-	25,534
Debt securities	95,079	225,153	171,568	339,023	161,991	103,975	374,393	-	1,471,222
Other investments	-	-	-	-	-	-	-	95,988	95,988
Total other financial investments	**120,613**	**225,153**	**171,568**	**339,023**	**161,991**	**103,975**	**374,393**	**95,988**	**1,592,744**
Deposits from third parties	93,285	-	-	-	-	-	-	-	93,285
Cash at bank	59,826	-	-	-	-	-	-	-	59,826
Total	**273,724**	**225,153**	**171,568**	**339,023**	**161,991**	**103,975**	**374,393**	**95,988**	**1,745,855**

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 and profit after tax as indicated in the table below:

Investments and cash – interest rate sensitivity Shift in yield (basis points)	Impact on profit after tax 2023 $'000	 2022 $'000	Impact on net assets 2023 $'000	 2022 $'000
100 basis point increase	(73,257)	(62,934)	(73,257)	(62,934)
50 basis point increase	(37,164)	(32,044)	(37,164)	(32,044)
50 basis point decrease	38,139	33,183	38,139	33,183
100 basis point decrease	77,155	67,468	77,155	67,468

2.3 Credit risk

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

Investments, reinsurance assets and cash – credit ratings 31 December 2023	AAA $'000	AA $'000	A $'000	BBB $'000	BB $'000	Not rated $'000	Total $'000
Variable yield securities	61,413	-	-	-	-	-	61,413
Debt securities	153,479	761,819	560,733	359,920	8,319	-	1,844,270
Other investments	-	-	-	-	-	100,526	100,526
Total other financial investments	**214,892**	**761,819**	**560,733**	**359,920**	**8,319**	**100,526**	**2,006,209**
Reinsurers' share of technical provisions	-	256,813	381,972	-	-	14,823	653,608
Debtors arising out of reinsurance operations	-	39,766	93,266	-	-	5,904	138,936
Deposits from third parties	-	-	151,770	-	-	-	151,770
Cash at bank	-	-	49,793	-	-	-	49,793
Total	**214,892**	**1,058,398**	**1,237,534**	**359,920**	**8,319**	**121,253**	**3,000,316**

Investments, reinsurance assets and cash – credit ratings 31 December 2022	AAA $'000	AA $'000	A $'000	BBB $'000	BB $'000	Not rated $'000	Total $'000
Variable yield securities	25,534	-	-	-	-	-	25,534
Debt securities	138,015	618,190	439,178	274,595	1,244	-	1,471,222
Other investments	-	-	-	-	-	95,988	95,988
Total other financial investments	**163,549**	**618,190**	**439,178**	**274,595**	**1,244**	**95,988**	**1,592,744**
Reinsurers' share of technical provisions	-	198,573	319,108	-	-	5,946	523,627
Debtors arising out of reinsurance operations	-	66,776	115,917	-	-	2,751	185,444
Deposits from third parties	-	-	93,285	-	-	-	93,285
Cash at bank	59,826	-	-	-	-	-	59,826
Total	**223,375**	**883,539**	**967,488**	**274,595**	**1,244**	**104,685**	**2,454,926**

HCCII's largest counterparty exposure is $232.7m of US Government securities (2022: $151.9m).

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

Financial assets – ageing 31 December 2023	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	532,905					532,905
Insurance debtors	181,357	9,300	585	1,513	1,302	194,057
Reinsurance debtors	118,563	11,546	2,982	4,377	1,468	138,936
Other debtors	109,567					109,567
Total	**942,392**	**20,846**	**3,567**	**5,890**	**2,770**	**975,465**

Financial assets – ageing 31 December 2022	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	411,271	-	-	-	-	411,271
Insurance debtors	159,622	16,248	1,706	3,305	1,418	182,299
Reinsurance debtors	168,226	9,319	3,061	3,707	1,131	185,444
Other debtors	71,952	-	-	-	-	71,952
Total	**811,071**	**25,567**	**4,767**	**7,012**	**2,549**	**850,966**

Fair value estimation

The following table presents the HCCII's financial investments measured at fair value at 31 December 2023 and 31 December 2022 categorised into levels 1, 2 and 3, reflecting the categorisation criteria specified in FRS 102 (see note 3(O)). No liabilities were measured at fair value at 31 December 2023 or 31 December 2022.

Financial investments – pricing basis	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
31 December 2023				
Variable yield securities	-	61,413	-	61,413
Debt securities	-	1,844,270	-	1,844,270
Other investments	-	-	100,526	100,526
Total other financial investments	**-**	**1,905,683**	**100,526**	**2,006,209**

Financial investments – pricing basis	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
31 December 2022				
Variable yield securities	-	25,534	-	25,534
Debt securities	-	1,471,222	-	1,471,222
Other investments	-	-	95,988	95,988
Total other financial investments	**-**	**1,496,756**	**95,988**	**1,592,744**

2.4 Liquidity risk

The following table is an analysis of the estimated future net contractual cash flows based on all the liabilities held at 31 December 2023 and 2022:

Financial liabilities – projected cash flows 31 December 2023	Within 1yr $'000	1-3 years $'000	3-5 years $'000	>5 years $'000	Total $'000
Gross claims outstanding	505,426	612,615	298,987	295,428	1,712,456
Creditors from direct insurance operations	11,917	-	-	-	11,917
Creditors from reinsurance operations	131,424	-	-	-	131,424
Other creditors	30,411	-	-	-	30,411
Total	**679,178**	**612,615**	**298,987**	**295,428**	**1,886,208**

Financial liabilities – projected cash flows 31 December 2022	Within 1yr $'000	1-3 years $'000	3-5 years $'000	>5 years $'000	Total $'000
Gross claims outstanding	426,572	462,660	222,639	225,634	1,337,505
Creditors from direct insurance operations	16,820	-	-	-	16,820
Creditors from reinsurance operations	132,502	-	-	-	132,502
Other creditors	18,874	-	-	-	18,874
Total	**594,768**	**462,660**	**222,639**	**225,634**	**1,505,701**

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 2023	Within 1yr $'000	1-3 years $'000	3-5 years $'000	>5 years $'000	N/A $'000	Total $'000
Variable yield securities	61,413	-	-	-	-	61,413
Debt securities	209,710	393,314	275,400	965,846	-	1,844,270
Other investments	-	-	-	-	100,526	100,526
Total other financial investments	**271,123**	**393,314**	**275,400**	**965,846**	**100,526**	**2,006,209**
Cash at bank	49,793	-	-	-	-	49,793
Total	**320,916**	**393,314**	**275,400**	**965,846**	**100,526**	**2,056,002**

Investments and cash – maturity 31 December 2022	Within 1yr $'000	1-3 years $'000	3-5 years $'000	>5 years $'000	N/A $'000	Total $'000
Variable yield securities	25,534	-	-	-	-	25,534
Debt securities	83,188	378,152	248,289	761,593	-	1,471,222
Other investments	-	-	-	-	95,988	95,988
Total other financial investments	**108,722**	**378,152**	**248,289**	**761,593**	**95,988**	**1,592,744**
Cash at bank	59,826	-	-	-	-	59,826
Total	**168,548**	**378,152**	**248,289**	**761,593**	**95,988**	**1,652,570**

3. Investment in subsidiary undertakings

Set out below are HCCII's subsidiaries, as at 31 December 2023, 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:

	2023 $'000	2022 $'000
At 1 January	371,777	407,319
Investment in subsidiary undertaking	-	20,000
Revaluation of subsidiary undertakings	83,565	(43,305)
Foreign exchange impact on translation to closing rate	9,474	(12,237)
At 31 December	**464,816**	**371,777**

In the prior year (2022), HCCII invested an additional $20m of share premium into TME.

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

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)	26, Avenue de la Liberté L-1930, Luxembourg	Insurance company	Ordinary	100%
Qdos Broker and Underwriting Services Limited	The Grange, Rearsby, Leicester, England, LE7 4FY	Insurance intermediary	Ordinary	100%
Qdos Holdings Limited	The Grange, Rearsby, Leicester, England, LE7 4FY	Holding company	Ordinary	100%
GCube Underwriting Limited	20 Fenchurch Street, London, EC3M 3BY	Managing General Agency	Ordinary	100%
Renewable Energy Loss Adjusters Limited	70 Gracechurch Street, London, EC3V 0HR	Loss adjusters	Ordinary	100%
HCC Diversificación y Soluciones S.L. (incorporated in Spain)	13, Torre Diagonal Mar B1, Carrer de Josep Pla, 2, 08019 Barcelona, Spain	Administration services	Ordinary	100%

4. Other financial investments

	Fair value		Book cost	
	2023 $'000	2022 $'000	2023 $'000	2022 $'000
Variable yield securities and units in unit trusts	61,413	25,534	61,413	25,534
Debt securities and other fixed-income securities	1,844,270	1,471,222	1,956,611	1,659,787
Other investments	100,526	95,988	75,358	76,078
	2,006,209	**1,592,744**	**2,093,382**	**1,761,399**

Debt securities and other fixed-income securities comprise listed investments. Other investments is an investment in a real estate investment fund.

5. Other debtors

	2023 $'000	2022 $'000
Deferred tax asset	2,198	2,346
Corporation tax	644	-
Claims funds	14,940	6,887
Amounts owed by group undertakings	91,586	62,575
Other debtors	199	144
	109,567	71,952

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.

6. Tangible assets

	Leasehold improvements $'000	Owner occupied land and buildings $'000	Fixtures, fittings and office equipment $'000	Total $'000
Book cost				
At 1 January 2023	1,466	5,880	2,847	10,193
Additions	-	213	450	663
At 31 December 2023	**1,466**	**6,093**	**3,297**	**10,856**
Accumulated depreciation				
At 1 January 2023	1,466	1,577	1,825	4,868
Charge for the year	-	171	154	325
At 31 December 2023	**1,466**	**1,748**	**1,979**	**5,193**
Net book value				
31 December 2023	-	**4,345**	**1,318**	**5,663**

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

	Leasehold improvements $'000	Owner occupied land and buildings $'000	Fixtures, fittings and office equipment $'000	Total $'000
Book cost				
At 1 January 2022	1,466	5,836	2,383	9,685
Disposals	-	44	464	508
At 31 December 2022	**1,466**	**5,880**	**2,847**	**10,193**
Accumulated depreciation				
At 1 January 2022	1,466	1,407	1,747	4,620
Charge for the year	-	170	78	248
At 31 December 2022	**1,466**	**1,577**	**1,825**	**4,868**
Net book value				
31 December 2022	-	**4,303**	**1,022**	**5,325**

7. Other creditors including taxation and social security

	2023 $'000	2022 $'000
Corporation tax	-	2,777
Amounts owed by group companies	30,132	13,714
Other creditors	279	2,383
	30,411	18,874

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

Net deferred tax asset	2023 $'000	2022 $'000
At 1 January - net deferred tax (asset)/liability	(2,346)	726
Changes in accelerated capital allowances	(1,021)	101
LTIP	(2,359)	-
Technical reserves	902	(1,078)
Short-term timing differences	2,626	(2,095)
At 31 December - net deferred tax asset	(2,198)	(2,346)

The net deferred tax asset consists of the following amounts:

	2023 $'000	2022 $'000
Accelerated capital allowances	(263)	758
LTIP	(2,359)	-
Technical reserves	676	(226)
Short-term timing differences	(252)	(2,878)
Deferred tax asset	(2,198)	(2,346)

8. Technical provisions – Company

	Provisions for unearned premiums $'000	Claims outstanding (1) $'000	Deferred acquisition costs $'000	Net technical liabilities $'000
Gross of reinsurance				
At 1 January 2023	513,813	1,337,505	(111,171)	1,740,147
Movement in provision	23,007	325,652	(7,549)	341,110
Exchange adjustments	18,842	49,299	(4,879)	63,262
At 31 December 2023	**555,662**	**1,712,456**	**(123,599)**	**2,144,519**
Reinsurance				
At 1 January 2023	(112,356)	(411,271)	23,004	(500,623)
Movement in provision	(3,897)	(110,424)	775	(113,546)
Exchange adjustments	(4,450)	(11,210)	566	(15,094)
At 31 December 2023	**(120,703)**	**(532,905)**	**24,345**	**(629,263)**
Net				
At 31 December 2023	**434,959**	**1,179,551**	**(99,254)**	**1,515,256**

	Provisions for unearned premiums $'000	Claims outstanding (1) $'000	Deferred acquisition costs $'000	Net technical liabilities $'000
Gross of reinsurance				
At 1 January 2022	525,326	1,127,158	(113,782)	1,538,702
Movement in provision	(7,892)	273,175	1,377	266,660
Exchange adjustments	(3,621)	(62,828)	1,234	(65,215)
At 31 December 2022	**513,813**	**1,337,505**	**(111,171)**	**1,740,147**
Reinsurance				
At 1 January 2022	(121,001)	(335,123)	28,799	(427,325)
Movement in provision	6,749	(89,557)	(5,703)	(88,511)
Exchange adjustments	1,896	13,409	(92)	15,213
At 31 December 2022	**(112,356)**	**(411,271)**	**23,004**	**(500,623)**
Net				
At 31 December 2022	**401,457**	**926,234**	**(88,167)**	**1,239,524**

(1) Claims outstanding includes claims incurred but not reported ('IBNR') reserves of $998.6m gross of reinsurance and $227.8m reinsurer's share of IBNR reserves (2022: $810.9m gross; $210.5m reinsurer's share).

9. Tax charge on profit on ordinary activities

	2023 $'000	2022 $'000
UK Corporation tax at 23.52% (2022:19.00%)		
Current tax on income for the year	40,503	7,666
Tax in respect of prior years	(4,101)	(1,327)
Current tax for the year	**36,402**	**6,339**
Deferred tax - origination and reversal of timing differences	330	(3,236)
Tax charge on profit on ordinary activities	**36,732**	**3,103**

The tax assessed for the year is lower (2022: lower) than the standard rate of corporation tax in the UK. The differences are explained below:

	2023 $'000	2022 $'000
Profit on ordinary activities before taxation	**174,886**	**24,172**
Tax charge on profit on ordinary activities before taxation at standard rate of 23.52% (2022:19.00%)	41,133	4,593
Expenses not deductible for tax purposes	198	1,227
Foreign tax	(40)	248
Effect of foreign exchange	(482)	(1,726)
Tax in respect of prior years	(745)	(1,327)
Movement in unrecognised deferred tax asset	(3,115)	88
Other	(217)	-
Tax charge on profit on ordinary activities	**36,732**	**3,103**

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