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Syndicate 6125

Annual Report

Year ended
31 December 2019

CONTENTS

SYNDICATE 6125
DIRECTORS AND ADVISERS

Managing Agent

Hamilton Managing Agency Limited (formerly Pembroke Managing Agency)

Registered Office

Level 3
8 Fenchurch Place
London
EC3M 4AJ

Registered Number

05832065

Directors

P. J. Barrett (appointed 20 August 2019)	Non-Executive
M. J. Beacham	Independent Non-Executive
M. J. Beane (appointed 10 December 2019)	Independent Non-Executive
C. D. Brown	Executive
N. J. Davenport (resigned 20 August 2019)	Non-Executive
K. Ethirajan (resigned 20 August 2019)	Executive
T. A. B. H. Glover	Executive
P. C. F. Haynes (appointed 10 December 2019)	Independent Non-Executive, Chairman
A. M. Kaufman (resigned 31 December 2019)	Independent Non-Executive, Chairman
I. G. Lever (resigned 31 December 2019)	Executive
J. F. Reiss (appointed 20 August 2019)	Non-Executive
F. W. Robinson (resigned 20 August 2019)	Non-Executive
T. M. Seymour (resigned 31 December 2019)	Independent Non-Executive
P. Skerlj (appointed 20 August 2019)	Non-Executive
A. Ursano Jr (appointed 10 December 2019)	Non-Executive
R. S. Vetch (appointed 20 August 2019)	Executive
D. N. White	Executive

Company Secretary

D. Ford

Syndicate

Active Underwriter (Syndicate 4000)

A. C. G. Mackay (resigned 31 December 2019)
A. J. Daws (appointed 1 January 2020)

Auditor

Ernst & Young LLP
25 Churchill Place
London
E14 5EY

SYNDICATE 6125

MANAGING AGENT'S REPORT

The Directors of Hamilton Managing Agency Limited ("HMA") present the Managing Agent's Report for Syndicate 6125 (the 'Syndicate') for the year ended 31 December 2019.

Principal Activity

The Syndicate is a Special Purpose Arrangement ("SPA") with the principal activity of underwriting short-tail quota share reinsurance cessions from Syndicate 4000. Syndicate 4000 is also managed by HMA.

The Syndicate commenced underwriting on 1 January 2016. The formation of the Syndicate was a key component of the strategic partnership and cooperation agreements between HMA and Reaseguradora Patria S.A ("Patria"). The ultimate parent company of Patria is Peña Verde S.A.B ("Peña Verde"), a Mexican domiciled insurance and reinsurance group with an established presence in Central and South America.

Allocated capacity for the 2019 year of account was £23.0m (2018: £20.0m); the capacity for the 2020 year of account is £23.0m.

The Syndicate capital to support underwriting is provided by Patria Corporate Member Ltd ("PCM"). PCM's ultimate parent company is Peña Verde.

Management of the Syndicate

From 20 August 2019, HMA's immediate parent undertaking is Hamilton UK Holdings Limited, a company registered in England and Wales. The company's ultimate parent company is Hamilton Insurance Group, Ltd (collectively with its subsidiaries, "the Hamilton Group"), a company registered in Bermuda. The Hamilton Group acquired HMA from Pembroke JV Limited (the ultimate parent company of Pembroke JV Limited was Liberty Mutual Holding Company Inc.).

Business of the Syndicate

During the 2019 financial year, gross written premium by operating division was as follows:

	2019 £000	**2018 £000**
Property Treaty	10,241	10,422
Accident and Health	1,840	2,775
Specialty	4,582	1,712
Marine Treaty	7,246	5,949
Total	23,909	20,858

Property Treaty/Marine Treaty

The Property Treaty and Marine Treaty accounts are written by Syndicate 4000, with the Syndicate accepting 90% of this business through quota share reinsurance cessions. The Property Treaty and Marine Treaty accounts are international portfolios with the majority of risks being written on an excess of loss basis.

Quota share cessions from Syndicate 4000

A key feature of the strategic partnership is an exposure swap agreement covering a number of short tail lines of business written by each party. During the financial year, the Syndicate has bound quota share cessions from Syndicate 4000 on the following types of business (reported above under four divisions): Property, Liability, Personal Accident, Fine Art & Specie, War & Terrorism, Marine Reinsurance, Onshore and Offshore Energy.

Review of Financial Performance

The key financial indicators of the Syndicate are:

	2019 £000	2018 £000
Syndicate capacity	23,000	20,000
Gross premiums written	23,909	20,858
Loss for the financial year	(4,405)	(6,728)
Total comprehensive loss	(4,258)	(7,057)
Net combined ratio	126.9%	143.9%

The Syndicate reports a net underwriting loss for the financial year ended 31 December 2019 of £4.4m (2018: loss of £6.7m). The key drivers for the financial year loss are set out below.

Gross Written Premiums

The Syndicate reports gross written premiums for the financial year of £23.9m (2018: £20.9m), an increase of £3.0m from 2018 due to the increased underwriting capacity for the 2019 year of account.

Net Losses Incurred

The net loss ratio for the financial year improved to 88.9% (2018: 104.2%) driven by reserve releases in older years of account due to better than expected claims experience. However, increased claims provisions on the 2019 year of account offset these releases, driven by catastrophe events (Typhoon Hagibis, Typhoon Jebi and Hurricane Dorian) and other attritional losses related to wind, storm and hail.

Future Prospects

Trading Environment

The capacity for 2020 is unchanged from 2019 at £23.0m; however, there has been a change in the Syndicate's business mix with certain quota share accounts no longer being assumed from Syndicate 4000.

Whilst the rating environment for Marine Treaty business remains relatively flat, the outlook for Property Treaty is far more positive with notable rate improvement in US business.

Strategic Approach to Growth

The strategic partnership with HMA is fundamental to the future development of the Syndicate and both HMA and the Syndicate's capital provider are well attuned to prevailing market conditions. Accordingly, the Syndicate only anticipates modest growth in the short term.

Subject to trading conditions and the availability of high quality opportunities, growth will be achieved through the managed and disciplined development of existing lines of business, and the careful selection and managed introduction of new underwriting teams and lines of business.

The UK Decision to Leave the European Union ("Brexit")

The future prospects of the UK economy are uncertain as a result of the UK's decision to leave the European Union. There is an elevated level of risk currently being experienced by the Lloyd's and London Market, as it is anticipated to result in change for the insurance industry. The Syndicate will continue to utilise Lloyd's Brussels as appropriate.

Research and Development

The Syndicate has not participated in any research and development activity during the period.

Staff Matters

HMA recognises that its staff members are key resources and seeks to provide a good working environment for its staff that is safe and complies with appropriate employee legislation. During the year there have been no significant injuries to staff in the workplace or any significant actions taken by any regulatory bodies with regard to staff matters.

Human resources' key performance indicators are reviewed periodically by committees of the Board, and all such indicators are in line with the expectations of the Directors.

As of 1 December 2019, all HMA UK staff were transferred to Hamilton UK Service Company Limited and HMA entered into a service agreement with this entity for the provision of services in relation to its role as managing agent, including for Syndicate 6125. HMA and Hamilton UK Service Company Limited are both fully owned subsidiaries of Hamilton UK Holdings Limited.

Environmental Matters

HMA does not consider that a business such as a Syndicate at Lloyd's has an impact upon the environment. As a result, HMA does not manage its business by reference to any environmental key performance indicators.

Principal Risk and Uncertainties

The Board sets risk appetite annually as part of the Syndicate's business planning and capacity setting process. HMA has established a Risk Committee, which meets at least quarterly, to review and update the risk register and to monitor performance against risk appetite using a series of key risk indicators. An Own Risk and Solvency Assessment ("ORSA") is completed annually and reviewed on a quarterly basis. The ORSA is used to monitor changes in the risk profile of HMA and to ensure that HMA meets its current and future capital requirements.

The principal risks and uncertainties facing the Syndicate are set out in note 2 to the Annual Report.

Directors and Officers Serving During the Year

The Directors who served during the year ended 31 December 2019 and up to the date of this report (and the current Company Secretary) are detailed on page 3.

Annual General Meeting

The Directors do not propose to hold an annual general meeting for the Syndicate.

Auditor

Ernst & Young LLP has signified its willingness to continue in office as auditor.

Disclosure of Information to the Auditor

The Directors who held office at the date of the approval of this Managing Agent's Report confirm that, so far as they are individually aware, there is no relevant audit information of which the Syndicate's auditor is unaware and each director has taken all the steps that he/she ought to have taken as director to make himself/herself aware of any relevant audit information and to establish that the Syndicate's auditor is aware of that information.

Board Approval

Approved by order of the Board of Hamilton Managing Agency Limited.

T. A. B. H. Glover
Chief Executive Officer
3 March 2020

SYNDICATE 6125

STATEMENT OF MANAGING AGENT'S RESPONSIBILITIES

The managing agent is responsible for preparing the Syndicate Annual Report and Annual Accounts in accordance with applicable law and regulations.

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

In preparing the Syndicate Annual Accounts, the managing agent is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the annual accounts; and
- assess the Syndicate's ability to continue to write new business, disclosing as applicable, matters related to its ability to continue to operate and use the going concern basis of accounting, unless the managing agent intends to cease to operate the Syndicate or has no realistic alternative but to do so.

The managing agent is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Syndicate and enable it to ensure that the Syndicate Annual Accounts comply with the 2008 Regulations. It is also responsible for safeguarding the assets of the Syndicate and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The managing agent is responsible for the maintenance and integrity of the corporate and financial information included on the business's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

SYNDICATE 6125
INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SYNDICATE 6125

Opinion

We have audited the syndicate annual accounts of Syndicate 6125 ('the syndicate') for the year ended 31 December 2019 which comprise the Statement of Comprehensive Income, the Statement of Members' Balances, the Statement of Financial Position, the Statement of Cash Flows and the related notes 1 to 14, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and FRS 103 'Insurance Contracts' (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the syndicate annual accounts:

- give a true and fair view of the syndicate's affairs as at 31 December 2019 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the syndicate annual accounts section of our report below. We are independent of the syndicate in accordance with the ethical requirements that are relevant to our audit of the syndicate annual accounts in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions Relating to Going Concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors of the managing agent's use of the going concern basis of accounting in the preparation of the syndicate annual accounts is not appropriate; or
- the directors of the managing agent has not disclosed in the syndicate annual accounts any identified material uncertainties that may cast significant doubt about the syndicate's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the syndicate annual accounts are authorised for issue.

Other Information

The other information comprises the information included in the annual report, other than the syndicate annual accounts and our auditor's report thereon. The directors of the managing agent is responsible for the other information.

Our opinion on the syndicate annual accounts does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the syndicate annual accounts, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the syndicate annual accounts or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the syndicate annual accounts 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 the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on Other Matters Prescribed by The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the managing agent's report for the financial year in which the syndicate annual accounts are prepared is consistent with the syndicate annual accounts; and
- the managing agent's report has been prepared in accordance with applicable legal requirements.

Matters on which we are Required to Report by Exception

In the light of the knowledge and understanding of the syndicate and its environment obtained in the course of the audit, we have not identified material misstatements in the managing agent's report.

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

- the managing agent in respect of the syndicate has not kept adequate accounting records; or
- the syndicate annual accounts are not in agreement with the accounting records; or
- certain disclosures of the managing agents' emoluments specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of the Directors of the Managing Agent

As explained more fully in the Statement of Managing Agent's Responsibilities, the managing agent is responsible for the preparation of the syndicate annual accounts and for being satisfied that they give a true and fair view, and for such internal control as the managing agent determines is necessary to enable the preparation of the syndicate annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the syndicate annual accounts, the managing agent is responsible for assessing the syndicate's ability to continue in operation, disclosing as applicable, matters related to its ability to continue in operation and using the going concern basis of accounting unless the managing agent either intends to cease to operate the syndicate, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Syndicate Annual Accounts

Our objectives are to obtain reasonable assurance about whether the syndicate annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 syndicate annual accounts.

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

Use of our Report

This report is made solely to the syndicate's members, as a body, in accordance with The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. Our audit work has been undertaken so that we might state to the syndicate's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the syndicate and the syndicate's members as a body, for our audit work, for this report, or for the opinions we have formed.

Robert Bruce (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
3 March 2020

SYNDICATE 6125

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 £000	2018 £000
TECHNICAL ACCOUNT – GENERAL BUSINESS			
Earned premiums, net of reinsurance			
Gross premiums written	3	23,909	20,858
Outward reinsurance premiums		(5,318)	(5,690)
Net premiums written		18,591	15,168
Change in the provision for unearned premiums			
Gross amount		(1,020)	(847)
Reinsurers' share		392	893
Change in the net provision for unearned premiums		(628)	46
Earned premiums, net of reinsurance		17,963	15,214
Allocated investment return transferred from the non-technical account		304	-
Claims incurred, net of reinsurance			
Claims paid			
Gross amount		(16,887)	(8,004)
Reinsurers' share		2,505	728
Net claims paid		(14,382)	(7,276)
Change in the provision for claims			
Gross amount		(2,638)	(11,554)
Reinsurers' share		1,052	2,970
Change in the net provision for claims		(1,586)	(8,584)
Claims incurred, net of reinsurance		(15,968)	(15,860)
Net operating expenses	5	(6,828)	(6,037)
Balance on technical account - general business		(4,529)	(6,683)
NON-TECHNICAL ACCOUNT			
Income from investments		304	-
Allocated investment return transferred to the technical account		(304)	-
Foreign exchange gains/(losses)		124	(45)
Loss for the financial year		(4,405)	(6,728)
Other comprehensive income - currency translation gains/(losses)		147	(329)
Total comprehensive loss for the financial year		(4,258)	(7,057)

All the amounts above are in respect of continuing operations.

SYNDICATE 6125

STATEMENT OF CHANGES IN MEMBERS' BALANCES
FOR THE YEAR ENDED 31 DECEMBER 2019

	2019 **£000**	**2018** **£000**
Balance at 1 January	(13,926)	(6,869)
Loss for the financial year	(4,405)	(6,728)
Receipt of loss from members' personal reserve fund	1,309	-
Currency translation (losses)/gains	147	(329)
Balance at 31 December	(16,875)	(13,926)

SYNDICATE 6125

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019

	Note	2019 £000	2018 £000
ASSETS			
Reinsurers' share of technical provisions			
Provision for unearned premiums	11	1,584	1,248
Claims outstanding	11	5,552	4,692
		7,136	5,940
Debtors arising out of reinsurance operations			
Due within one year	9	496	13,079
Due after one year	9	50,205	29,442
		50,701	42,521
Prepayments and accrued income			
Deferred acquisition costs	10	1,754	1,910
		1,754	1,910
TOTAL ASSETS		59,591	50,371
MEMBERS' BALANCES AND LIABILITIES			
Members' balances		(16,875)	(13,926)
Technical provisions			
Provision for unearned premiums	11	7,292	6,447
Claims outstanding	11	27,015	25,176
		34,307	31,623
Creditors arising out of reinsurance operations			
Due within one year		14,848	8,840
Due after one year		22,659	16,761
		37,507	25,601
Accruals and deferred income		4,652	7,073
TOTAL MEMBERS' BALANCES AND LIABILITIES		59,591	50,371

The Syndicate Annual Accounts on pages 10 to 27 were approved by the Board of Hamilton Managing Agency Limited on 3 March 2020 and were signed on its behalf by:

R. S. Vetch
Chief Financial Officer

SYNDICATE 6125

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019

	2019 £000	2018 £000
Cash flow from operating activities		
Operating result	(4,405)	(6,728)
Adjustments:		
Increase in gross technical provisions	3,658	13,578
Increase in reinsurers' share of technical provisions	(1,328)	(4,437)
Increase in debtors	(9,708)	(18,862)
Increase in creditors	10,746	14,697
Movement in other assets and liabilities	(166)	2,081
Investment return	(304)	-
Other	198	(329)
Net cash flow from operating activities	(1,309)	-
Cash flow from financing activities		
Cash call from members (2016 year of account)	1,309	-
Net cash inflow from financing activities	1,309	-
Net increase in cash and cash equivalents	-	-
Cash and cash equivalents at 1 January	-	-
Cash and cash equivalents at 31 December	-	-

1. Statement of Accounting Policies

General Information

The Syndicate commenced trading on 1 January 2016 as a Special Purpose Arrangement.

Patria Corporate Member Limited, a corporate member of the Society of Lloyd's that underwrites insurance business in the London market, is the sole capital provider for the Syndicate.

Compliance with Accounting Standards

These financial statements have been prepared in accordance with United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", FRS 103 "Insurance Contracts" and the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. There were no material departures from those standards.

Basis of Preparation

The financial statements for the year ended 31 December 2019 comply with FRS 102 and 103.

The financial statements have been prepared on a historical cost basis.

The financial statements are presented in pounds sterling, which is the Syndicate's reporting currency, in order for them to be consistent with returns provided to Lloyd's. The Syndicate's functional currency is US dollars, in order to better reflect the underlying business of the Syndicate. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

Going Concern Basis

These financial statements are prepared on a going concern basis.

Syndicates by their nature only underwrite for single underwriting years on behalf of their supporting members, however this is within a context of not finalising results until after 36 months so that typically there are three underwriting years in progress at any given time. In addition, Syndicates will normally expect to continue to trade for more underwriting years into the future.

The Syndicate's business activities, together with the factors likely to affect its future development are set out in the business review contained within the Managing Agent's Report. In addition, note 2 to the Annual Report provides details of the financial risks to which the Syndicate is exposed and how those risks are managed.

The Syndicate underwrites via a quota share arrangement with Syndicate 4000 on a funds withheld basis. Syndicate 4000 has considerable financial resources together with long-term relationships with a number of brokers and policyholders across different classes of business and geographical areas. Consequently, the Directors believe that the Syndicate is well placed to manage its business risks successfully despite the current uncertain economic outlook.

The Directors have a reasonable expectation that the Syndicate has adequate resources including the Funds at Lloyd's of the members supporting the Syndicate (as detailed in note 13) to continue in operational existence for the foreseeable future.

1. Statement of Accounting Policies (continued)

Use of Judgements and Estimates

In preparing these financial statements, the Directors of the managing agent have made judgements, estimates and assumptions that affect the application of the Syndicate's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Provision for Claims Outstanding

The measurement of the provision for claims outstanding involves judgements and assumptions about the future that have the most significant effect on the amounts recognised in the financial statements.

The provision for claims outstanding comprises the estimated cost of settling all claims incurred but unpaid at the balance sheet date, whether reported or not. This is a judgemental and complex area due to the subjectivity inherent in estimating the impact of claims events, that have occurred but for which the eventual outcome remains uncertain. In particular, judgement is applied when estimating the value of amounts that should be provided for claims that have been incurred at the reporting date but have not yet been reported ("IBNR") to the Syndicate.

The amount included in respect of IBNR is based on statistical techniques of estimation applied by the Syndicate managing agent's actuaries and reviewed by external consulting actuaries. These techniques generally involve projecting from past experience of the development of claims over time in view of the likely ultimate claims to be experienced, and for more recent underwriting, having regard to variations in business accepted and the underlying terms and conditions. The provision for claims also includes amounts in respect of internal and external claims handling costs. For the most recent years, where a high degree of volatility arises from projections, estimates may be based in part on output from rating and other models of business accepted and assessments of underwriting conditions.

Further information about the risk that the provision for claims outstanding could be materially different from the ultimate cost of claims settlement is included in note 2.

Estimated Premium Income

For certain insurance contracts, premium is initially recognised based on an estimate. These estimates are judgemental and could result in prospective revisions in future accounting periods. The use of expert judgements and historical development patterns are the principle means by which the potential for revisions are minimised.

Basis of Accounting

The underwriting results are determined on an annual basis of accounting. Under the annual basis of accounting, the incurred cost of claims, commission and related expenses are charged against the earned proportion of premiums, net of reinsurance. The significant accounting policies are detailed below.

Premiums Written

Premiums written comprise direct and inwards reinsurance premiums on contracts incepted during the financial year. Premiums are shown gross of brokerage, payable to intermediaries and exclude taxes and duties levied on them. Estimates are made for pipeline premiums, representing amounts due to the Syndicate not yet notified.

Unearned Premiums

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

Reinsurance Premiums Ceded

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

1. Statement of accounting policies (continued)

Basis of Accounting (continued)

Acquisition Costs

Acquisition costs include direct costs such as brokerage and commission, and indirect costs such as administrative expenses connected with the processing of proposals and the issuing of policies. The deferred acquisition cost asset represents the proportion of acquisition costs, which corresponds to the proportion of gross premiums written that is unearned at the balance sheet date; this is then earned in future periods in line with the associated premium income.

Claims Provisions and Related Recoveries

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

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

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

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

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

The Directors consider that the provisions for gross claims and related reinsurance recoveries are fairly stated on the basis of the information currently available to them. However, the ultimate liability will vary as a result of subsequent information and events and this may result in significant adjustments to the amounts provided. The methods used, and the estimates made, are reviewed regularly.

Unexpired Risks Provision

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

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

As of 31 December 2019 and 31 December 2018 the Syndicate did not have an unexpired risk provision.

1. Statement of accounting policies (continued)

Basis of Accounting (continued)

Foreign Currencies

The Syndicate's functional currency is US dollars. The financial statements are presented in pounds sterling, which is the Syndicate's reporting currency, in order for them to be consistent with returns provided to Lloyd's.

Transactions in pounds sterling, Canadian dollars, Australian dollars and euros are translated at the average rates of exchange for the period. Transactions denominated in other foreign currencies are included at the rate of exchange ruling at the date the transaction is processed.

Monetary assets and liabilities (which include all assets and liabilities arising from insurance contracts including unearned premiums and deferred acquisitions costs) denominated in foreign currencies are translated at the rate of exchange at the balance sheet date.

Exchange differences arising on the retranslation of opening balance sheet items at the closing balance sheet rate and the retranslation of the profit and loss account for the year are recorded in the non-technical account. Exchange differences arising on the retranslation from functional to presentational currency are recorded in Other Comprehensive Income.

The rates of exchange used to translate foreign currency monetary balances at year-end to pounds sterling are as follows:

	31 December 2019	**31 December 2018**
US dollar	1.32	1.27
Canadian dollar	1.72	1.74
Euro	1.18	1.11
Australian dollar	1.88	1.81

Investment Return

Investment return comprises notional investment income on the Syndicate's funds withheld by Syndicate 4000. Investment return is initially recorded in the non-technical account. A transfer is made from the non-technical account to the general business technical account.

Taxation

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

No provision has been made for overseas income tax payable on underwriting results. Any payments on account made by the Syndicate during the year are included in the balance sheet under the heading 'Members' balances'.

Profit Commission

Profit commission payable to Lloyd's coverholders or producing brokers has been provided for on all years of account and recognised within acquisition costs. The profit commission is calculated in line with the contract term of these policies and the profitability of the underlying contract.

2. Risk Management

Risk Framework

The primary objective of the Syndicate's Risk Management Framework is to protect the members from events that hinder the sustainable achievement of financial performance objectives, including failing to exploit opportunities. The Board recognises the critical importance of having efficient and effective risk management systems in place.

HMA has an established risk management function for the Syndicate with a clear remit from the Board. This is supplemented with a clear organisational structure with documented delegated authorities and responsibilities from the Board. The Risk Management Framework sets out the risk profiles for the Syndicate, risk management, control and business conduct standards for the Syndicate's operations. It is reviewed annually and any changes are approved by the Board.

The Risk Committee and the Board approves the risk management policies and meets regularly to approve any commercial, regulatory and organisational requirements of such policies. Significant emphasis is placed on the assessment and documentation of existing and emerging risks and controls, including the articulation of risk appetite.

Insurance Risk – Underwriting

Underwriting risk appetite is expressed at the highest level, as a maximum event-specific net underwriting loss as a percentage of syndicate capacity for a specific year of account. Detailed stochastic modelling of underwriting risk, both gross and net of reinsurance, using dynamic financial analysis techniques supports this approach.

HMA's Board approves the risk appetite limit, after consultation with capital providers considering the relativity between willingness to lose and potential forecast profitability for each year of account. The risk appetite will therefore reflect the view of forecast profitability, utilising the Syndicate's latest business plan assumptions.

Principal Risks

The principal risk the Syndicate faces under insurance contracts is that the actual claims and payments or the timing thereof, differs from expectations. This is influenced by the frequency of claims, severity of claims, and the development of long-term claims liabilities. The objective of the Syndicate is to ensure that sufficient reserves are available to cover these liabilities.

The risk exposure is mitigated by diversification across a large portfolio of insurance contracts and geographical segments. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines, as well as the use of reinsurance arrangements.

Reinsurance

Reinsurance allows the Syndicate to manage capital exposure to both frequency and severity of claims. This includes the management of any systemic issues impacting a particular area of the account, as well as catastrophic losses across all business areas.

Business is written on the basis of generating a gross profit, regardless of the supporting reinsurance arrangements. Business planning and modelling assumptions are based on the expectation that reinsurers will make a profit.

Underwriting Committee

The Syndicate underwrites short-tail quota share reinsurance cessions from Syndicate 4000. Syndicate 4000 organises underwriting through a number of product areas, each of which reports to the Underwriting Committee and ultimately the HMA Board. This control process ensures that several layers of review occur for underwriting risks, with the focus being on the main components of risk, notably pricing, loss ratio selection, reserving, variations in experience, cycle management, reinsurance protection and catastrophe modelling.

2. Risk Management (continued)

Insurance Risk – Underwriting (continued)

Underwriting authorities, underwriting peer reviews of all risks, independent review procedures, and the audit and review of delegated arrangements all contribute to the strength of the underwriting control environment. HMA records and monitors individual risk exposures to ensure they remain within the policies and guidelines set.

Diversification

Risks usually cover twelve months' duration. Risks deliberately emanate from a diverse range of sources. The variability of risks is improved by careful selection and implementation of underwriting strategies, which are designed to ensure that risks are diversified in terms of type of risk and level of insured benefits. This is largely achieved through diversification across industry sectors and geographical segmentation.

Claims Management

To reduce the risk exposure of the Syndicate, HMA has put in place strict claim review policies to assess all new and ongoing claims. HMA performs regular detailed reviews of claims handling procedures and conducts frequent investigations of possible fraudulent claims.

The following table gives an indication of the likely quantum and scale of the largest (on a gross basis) Realistic Disaster Scenarios estimated for 2019 (highest gross event loss for year ended 31 December 2018 was Gulf of Mexico Windstorm at £14,681,000).

Realistic Disaster Scenarios	**Gross event loss £000**	**Net event loss £000**
Gulf of Mexico Windstorm	13,773	2,215
California Earthquake – Loss Angeles	15,191	1,662
California Earthquake – San Francisco	13,628	1,621

The Syndicate monitors exposures through a combination of deterministic modelling as part of the Realistic Disaster Scenarios Framework and stochastic modelling as part of Lloyd's catastrophe model reporting requirements. The Syndicate monitors total net claims on a 1-in-200 multiple event basis against capital requirements.

Insurance Risk – Reserving

Principal Risk

HMA's Reserving Policy seeks to ensure appropriate allowance for reserving risk and consistency in reserving from year to year. Booked reserves represent the level of reserves booked at syndicate level, and provide the basis for the syndicate results and forecasts.

The following table illustrates the sensitivity of the financial year results to changes in the net loss ratio (negative movements reflect a decrease in results / members' balances):

Impact on result and members' balances (change in net reserves)	**2019 £000**	**2018 £000**
Net loss ratio – increase of 5%	(898)	(761)
Net loss ratio – increase of 10%	(1,796)	(1,521)

2. Risk Management (continued)

Insurance Risk – Reserving (continued)

Mitigation

Reserving risk is controlled by the robust application of actuarial methodologies, stepped sign-off procedures, quarterly tracking of projected ultimate loss ratios, reassessment of methodologies where appropriate, regular dialogue between actuaries and practitioners, and access to historical loss data. The use of independent external reserve assessments by professional services firms provides additional risk mitigation.

Regulatory Risk

HMA is required to comply with the requirements of the Prudential Regulation Authority, the Financial Conduct Authority and Lloyd's. Lloyd's requirements include those imposed on the Lloyd's market by overseas regulators, particularly in respect of US Situs business. Regulatory risk is the risk of loss owing to a breach of regulatory requirements or failure to respond to regulatory change. HMA has a Compliance Officer, who monitors regulatory developments and assesses the impact on HMA policy. HMA also carries out a compliance-monitoring programme as documented in the Compliance Framework.

Capital Framework at Lloyd's

Lloyd's is a regulated undertaking and subject to the supervision of the Prudential Regulatory Authority ("PRA") under the Financial Services and Markets Act 2000. Lloyd's is subject to the Solvency II capital regime. Within the supervisory framework, Lloyd's applies capital requirements at member level and centrally to ensure that Lloyd's complies with Solvency II capital requirements, and beyond that to meet its own financial strength, licence and ratings objectives.

Although Lloyd's capital setting processes use a capital requirement set at syndicate level as a starting point, the requirement to meet Solvency II and Lloyd's capital requirements only apply at overall and member level respectively, not at syndicate level. Accordingly, the capital requirement in respect of the Syndicate is not disclosed in these financial statements.

Lloyd's Capital Setting Process

In order to meet Lloyd's requirements, each syndicate is required to calculate its SCR for the prospective underwriting year. This amount must be sufficient to cover a 1-in-200 year loss, reflecting uncertainty in the ultimate run-off of underwriting liabilities (SCR 'to ultimate'). The Syndicate must also calculate its SCR at the same confidence level but reflecting uncertainty over a one-year time horizon (one year SCR) for Lloyd's to use in meeting Solvency II requirements. The Board of HMA is responsible for the review and approval of the SCR before submission to Lloyd's and ongoing monitoring. The SCR of syndicates is subject to review by Lloyd's and approval by the Lloyd's Capital and Planning Group.

Lloyd's applies a capital uplift to the Syndicate's Solvency Capital Requirement, known as the Economic Capital Uplift to derive the Syndicate's final Economic Capital Assessment ("ECA"). The purpose of this uplift (which is a Lloyd's not a Solvency II requirement) is to meet Lloyd's financial strength, licence and ratings objectives. The capital uplift applied for 2019 was 35% of the members' SCR to ultimate. The ECA for a corporate member is determined by Lloyd's with reference to the ECAs of the syndicates on which the member participates, and the member's share of each syndicate.

Provision of Capital by Members

Each member may provide capital to meet its ECA either by assets held in trust by Lloyd's specifically for that member (Funds at Lloyd's), held within and managed within a syndicate (Funds in Syndicate) or as the member's share of the members' balances on each syndicate on which it participates.

Accordingly, all of the assets less liabilities of the Syndicate, as represented in the members' balances reported on the statement of financial position, represent resources available to meet members' and Lloyd's capital requirements.

2. Risk Management (continued)

Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation. The key aspect of credit risk is the risk of default by a reinsurer, insurance intermediary or debt holder. As an SPA, this risk is closely interlinked with that of Syndicate 4000.

The table below provides information regarding the credit risk exposure of the Syndicate at 31 December 2019 by classifying assets according to Standard & Poor's credit ratings of the counterparties for assets not yet due. AAA is the highest possible rating. Assets that fall outside the range of AAA to BBB and below are classified as speculative grade and have not been rated.

As at 31 December 2019	**AAA**	**AA**	**A**	**BBB and below**	**Not rated**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Reinsurers' share of outstanding claims	-	552	4,078	902	20	5,552
Reinsurance debtors	-	92	1,935	956	23	3,006
Total	-	644	6,013	1,858	43	8,558

As at 31 December 2018	**AAA**	**AA**	**A**	**BBB and below**	**Not rated**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Reinsurers' share of outstanding claims	-	77	2,435	1,855	325	4,692
Reinsurance debtors	-	95	616	291	30	1,032
Total	-	172	3,051	2,146	355	5,724

The HMA Reinsurance Working Group reviews all reinsurer counterparties with whom the Syndicate wishes to conduct business and sets credit limits for the recoveries due from individual reinsurers. The review includes an analysis of the financial strength of the reinsurer, its payment performance record and standing in the market. Thereafter, with the assistance of outside expertise, management of reinsurer credit risk follows active and regular review of credit ratings and financial exposure to all approved reinsurers.

Broker credit risk limits are also determined depending on the grading of the relevant broker and exposures monitored against limits on a monthly basis.

As at the balance sheet date, all financial assets of the Syndicate are unimpaired (2018: all unimpaired) and are not yet due (2018: all not yet due).

2. Risk Management (continued)

Liquidity Risk

The Syndicate operates on a funds withheld basis with Syndicate 4000, so is not subject to liquidity risk on a day-to-day basis. All cash payments are made via Syndicate 4000.

As at 31 December 2019	**Up to one year £000**	**One to three years £000**	**Three to five years £000**	**Greater than five years £000**	**Total £000**
Claims outstanding	11,371	11,069	3,294	1,281	27,015
Creditors	17,764	17,261	5,137	1,997	42,159
Total	29,135	28,330	8,431	3,278	69,174

As at 31 December 2018	**Up to one year £000**	**One to three years £000**	**Three to five years £000**	**Greater than five years £000**	**Total £000**
Claims outstanding	5,840	4,484	873	13,979	25,176
Creditors	8,840	23,834	-	-	32,674
Total	14,680	28,318	873	13,979	57,850

2. Risk Management (continued)

Market Risk – Currency Risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Syndicate writes a significant proportion of reinsurance business in currencies other than pounds sterling, which creates exposure to currency risk.

The table below summarises the exposure of financial assets and liabilities to foreign currency exchange risk at the balance sheet date.

As at 31 December 2019	**GBP £000**	**USD £000**	**EUR £000**	**CAD £000**	**AUD £000**	**Total £000**
Reinsurers' share of technical provisions	476	8,179	(745)	(562)	(212)	7,136
Debtors - reinsurance operations	10,762	34,616	3,978	528	817	50,701
Prepayments and accrued income	771	894	54	8	27	1,754
Total assets	12,009	43,689	3,287	(26)	632	59,591
Technical provisions	(10,263)	(20,079)	(3,281)	(213)	(471)	(34,307)
Creditors – reinsurance operations	(4,532)	(28,490)	(4,077)	(116)	(292)	(37,507)
Accruals and deferred income	(7,718)	1,883	1,114	69	-	(4,652)
Total liabilities	(22,513)	(46,686)	(6,244)	(260)	(763)	(76,466)
Currency deficiency	(10,504)	(2,997)	(2,957)	(286)	(131)	(16,875)

As at 31 December 2018	**GBP £000**	**USD £000**	**EUR £000**	**CAD £000**	**AUD £000**	**Total £000**
Reinsurers' share of technical provisions	(3,636)	11,567	(1,285)	(368)	(338)	5,940
Debtors - reinsurance operations	8,809	25,648	6,218	451	1,395	42,521
Prepayments and accrued income	669	1,100	86	12	43	1,910
Total assets	5,842	38,315	5,019	95	1,100	50,371
Technical provisions	(5,276)	(20,901)	(4,951)	(173)	(322)	(31,623)
Creditors – reinsurance operations	(1,532)	(21,745)	(1,381)	(153)	(790)	(25,601)
Accruals and deferred income	(6,573)	(492)	(8)	-	-	(7,073)
Total liabilities	(13,381)	(43,138)	(6,340)	(326)	(1,112)	(64,297)
Currency deficiency	(7,539)	(4,823)	(1,321)	(231)	(12)	(13,926)

The table below gives an indication of the impact on the result of a percentage change in the relative strength of pounds sterling against the value of the US dollar, euro, Canadian dollar and Australian dollar simultaneously.

As at 31 December 2019	**2019 £000**	**2018 £000**
10% against other currencies	(709)	(710)
20% against other currencies	(1,593)	(1,597)
Sterling strengthens		
10% against other currencies	579	581
20% against other currencies	1,062	1,064

2. Risk Management (continued)

Market Risk – Interest Rate

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Currently the Syndicate does not hold any investments and insurance liabilities are not discounted. Therefore, the Syndicate is not currently exposed to interest rate risk.

Operational Risk

This is the risk that errors caused by people, processes or systems lead to losses to the Syndicate. HMA seeks to manage this risk with detailed procedures manuals and a structured programme of testing of processes and systems by internal audit.

3. Segmental Analysis

All of the Syndicate's business is underwritten via reinsurance contracts with Syndicate 4000. All premiums were concluded in the UK.

4. Claims Incurred, Net of Reinsurance

In setting claims provisions, the Syndicate gives consideration to the probability and magnitude of future experience being more adverse than assumed and exercises a degree of caution in setting reserves where there is considerable uncertainty. In general, the uncertainty associated with the ultimate claims experience in an underwriting year is greatest when the underwriting year is at an early stage of development and the margin necessary to provide the necessary confidence in the provisions adequacy is relatively at its highest. As claims develop, and the ultimate cost of claims becomes more certain, the relative level of margin maintained should decrease. However, due to the uncertainty inherent in the estimation process, the actual overall claim provision may not always be in surplus.

Gross claims development

Pure underwriting year	**2016** **£000**	**2017** **£000**	**2018** **£000**	**2019** **£000**	**Total** **£000**
Estimate of cumulative claims incurred					
At the end of the underwriting year	6,034	8,977	12,974	**12,942**	
One year later	10,442	15,332	**19,998**		
Two years later	10,700	**14,510**			
Three years later	**10,717**				
Less: cumulative payments to date	(8,459)	(10,488)	(10,658)	(1,547)	
Gross claims outstanding provision	2,258	4,022	9,340	11,395	27,015

Net claims development

Pure underwriting year	**2016** **£000**	**2017** **£000**	**2018** **£000**	**2019** **£000**	**Total** **£000**
Estimate of cumulative claims incurred					
At the end of the underwriting year	5,588	8,044	9,914	**11,824**	
One year later	9,878	14,113	**14,730**		
Two years later	9,572	**12,920**			
Three years later	**9,715**				
Less: cumulative payments to date	(7,773)	(9,653)	(8,800)	(1,500)	
Net claims outstanding provision	1,942	3,267	5,930	10,324	21,463

5. Net Operating Expenses

	2019 £000	2018 £000
Acquisition costs	3,729	4,824
Change in deferred acquisition costs	982	(407)
Administrative expenses	2,219	1,703
Gross operating expenses	6,930	6,120
Reinsurers' commissions	(102)	(83)
Net operating expenses	6,828	6,037

6. Auditor's Remuneration

	2019 £000	2018 £000
Fees payable to the Syndicate's auditor for:		
Audit of the Syndicate Annual Accounts	5	8
Other services pursuant to regulations and Lloyd's byelaws	72	62
Other non-audit services	27	27
	104	97

Auditor's remuneration is included as part of administrative expenses in note 5.

7. Staff Numbers and Costs

Staff were employed by Hamilton Managing Agency Limited until 1 December 2019, at which point they were transferred to Hamilton UK Services Limited. No amounts were recharged to the Syndicate in respect of their salary costs. These were met by Syndicate 4000 which earned a fixed fee from Syndicate 6125 in relation to these services.

8. Emoluments of the Directors of Hamilton Managing Agency Limited

No specific amounts of remuneration or compensation were recharged to the Syndicate in respect of the Directors of HMA or the Active Underwriter of Syndicate 4000.

9. Debtors Arising Out of Reinsurance Operations

	2019 £000	2018 £000
Due within one year:		
Due from ceding insurers and intermediaries under reinsurance business written	230	12,645
Due from reinsurers and intermediaries under reinsurance contracts ceded – reinsurance recoverable on paid claims	266	434
	496	13,079
Due after one year:		
Due from ceding insurers and intermediaries under reinsurance business written	47,466	28,844
Due from reinsurers and intermediaries under reinsurance contracts ceded - reinsurance recoverable on paid claims	2,739	598
	50,205	29,442
	50,701	42,521

10. Deferred Acquisition Costs

	2019 £000	2018 £000
Balance at 1 January	1,910	1,459
Change in deferred acquisition costs	(116)	393
Effect of exchange rates	(40)	58
Balance at 31 December	1,754	1,910

11. Technical Provisions

	2019 Gross £000	2019 RI £000	2019 Net £000	2018 Gross £000	2018 RI £000	2018 Net £000
Incurred claims outstanding:						
Claims notified	9,215	(786)	8,429	6,323	(356)	5,967
Claims incurred but not reported	15,961	(3,906)	12,055	6,360	(855)	5,505
Balance at 1 January	25,176	(4,692)	20,484	12,683	(1,211)	11,472
Change in prior year provisions	(2,309)	420	(1,889)	3,248	693	3,941
Expected cost of current year claims	21,834	(3,978)	17,856	16,310	(4,391)	11,919
Claims paid during the year	(16,887)	2,505	(14,382)	(8,004)	728	(7,276)
Effect of exchange rates	(799)	193	(606)	939	(511)	428
Balance as at 31 December	27,015	(5,552)	21,463	25,176	(4,692)	20,484
Comprises:						
Claims notified	12,225	(1,926)	10,299	9,215	(786)	8,429
Claims incurred but not reported	14,790	(3,626)	11,164	15,961	(3,906)	12,055
Balance as at 31 December	27,015	(5,552)	21,463	25,176	(4,692)	20,484

	2019 Gross £000	2019 RI £000	2019 Net £000	2018 Gross £000	2018 RI £000	2018 Net £000
Unearned premiums						
Balance at 1 January	6,447	(1,248)	5,199	5,362	(292)	5,070
Premiums written during the year	23,909	(5,318)	18,591	20,858	(5,690)	15,168
Premiums earned during the year	(22,889)	4,926	(17,963)	(20,011)	4,796	(15,215)
Effect of exchange rates	(175)	56	(119)	238	(62)	176
Balance at 31 December	7,292	(1,584)	5,708	6,447	(1,248)	5,199

12. Related Parties

Managing Agent

The Syndicate is managed by Hamilton Managing Agency Limited ("HMA"), (previously known as Pembroke Managing Agency Limited). The immediate parent company of HMA prior to 20 August 2019 was Pembroke JV Limited. Following the transaction on 20 August 2019, the immediate parent of HMA is Hamilton UK Holdings Limited.

Capital

Patria Corporate Member Limited, the sole capital provider for the Syndicate, is not a Hamilton Group company.

Inwards Reinsurance Contracts

The Syndicate assumes business by way of variable rate quota share arrangements from Syndicate 4000, which is also managed by HMA. The debtor balance with Syndicate 4000 as at 31 December 2019 is £50.7m (2018: £42.5m) and the creditor balance is £37.5m (2018: £25.6m).

Investment income

Notional investment income of £0.3m (2018: less than £0.1m) is also due from Syndicate 4000 as at 31 December 2019. This comprises notional investment income on the Syndicate's funds withheld by Syndicate 4000.

13. Funds at Lloyd's

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

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

14. Off Balance Sheet Items

The Syndicate has not been a party to any arrangements, which are not reflected in its Statement of Financial Position, where material risks and benefits arise to the Syndicate.