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Syndicate 3334

Syndicate Annual Report and Accounts

31 December 2018

Syndicate 3334 information

Managing agent
Hamilton Underwriting Limited
Registered in England number 06684157

Registered office at:
St Helen's, 1 Undershaft
London EC3P 3DQ

Active underwriters
Adrian Daws
Miles Osorio

Syndicate auditors
Ernst & Young LLP
London

Syndicate bankers
Barclays Bank PLC
London

Citibank N.A.
London

Royal Trust Corporation of Canada
Toronto

Syndicate external actuaries
Willis Towers Watson
London

Investment portfolio managers
DWS Investment Management Americas, Inc
Barclays Bank (Suisse) SA

Investment custodian
The Bank of New York Mellon
London

Contents of Report and Accounts

Report of the Managing Agent

Introduction

The Syndicate's managing agent is a company registered in England and Wales. The directors of the managing agent, Hamilton Underwriting Limited (the Company or HUL), present their report for the year ended 31st December 2018. The managing agent is responsible for managing the affairs of Syndicate 3334. During 2018 the Syndicate comprised three open underwriting years, 2016 to 2018. In the prior year the Syndicate had three open underwriting years, 2015 to 2017, as well as three run-off years, 2012 to 2014. These run-off years were subject to an external reinsurance to close agreement effective 31 December 2017.

HUL is a wholly owned subsidiary of Hamilton UK Holdings Limited (HUK) and is ultimately owned by Hamilton Insurance Group Limited (the Hamilton Group or HIG), a Bermuda domiciled company. Hamilton Corporate Member Limited, a fellow subsidiary of HUK, is the sole capital provider to the three open years 2016, 2017 and 2018.

Principal activity

The Syndicate's principal activity is the transaction of general insurance and reinsurance business at Lloyd's of London (Lloyd's). There have been no changes during the year under review.

Statement of managing agent's responsibilities

The managing agent is responsible for preparing the syndicate annual accounts in accordance with applicable law and regulations.

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ("the Regulations") require the managing agent to prepare syndicate annual accounts for Syndicate 3334 at 31 December each year in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The syndicate 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, with the exception of changes arising on the adoption of new accounting standards in the year;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material differences disclosed and explained in the notes to the syndicate accounts; and
- prepare the syndicate accounts on the basis that the syndicate will continue to write future business unless it is inappropriate to presume that the syndicate will do so.

The 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 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' website. Legislation in the United Kingdom governing the preparation and dissemination of annual accounts may differ from legislation in other jurisdictions

Functional and presentational currency

On 1 January 2017 HUL changed the functional currency of the underwriting years 2015 onwards to US Dollars, being the years capitalised by the Hamilton group who adopt US Dollars as the functional currency for all entities. The run-off years 2012-2014 included in the comparatives 1 January 2017 to 31 December 2017 maintained Sterling as the functional currency. The presentational currency for all years in this report and accounts is Sterling.

Directors

The names of the persons who were directors of the managing agent at any time during the year and to the date of signing of this report are set out below:

Dermot O'Donohoe – Chief Executive Officer
Dominic Ford – Compliance Director and Company Secretary
Belinda Taylor – Finance Director
Peter Haynes – Chairman and Independent Non-executive Director
Malcolm Beane – Independent Non-executive Director
Adrian Walker – Independent Non-executive Director
Jonathan Reiss – Non-executive Director
Peter Skerlj – Non-executive Director

Pina Albo – Non-executive Director – appointed 13 August 2018
Simon Barrett – Chief Financial Officer – resigned 31 December 2018

Review of the business

Background

The Syndicate commenced underwriting in August 2006 as a specialist niche insurer of sport and leisure risks. Effective 1 April 2015 a change of control took place and the managing agency put forward plans to Lloyd's to implement the Hamilton Group strategy for the 2016 underwriting year of account onwards. This strategy was to provide a new diversified Lloyd's platform for the Group's international business. The managing agency actively recruited specialist insurance and reinsurance underwriters to execute this business plan with effect from 1 January 2016 across a core base of five specialist divisions covering Property, Treaty Reinsurance, Casualty/Professional, Speciality, and Space business. These core bases continued to be built on in subsequent years with Marine business being added as an additional specialist division in 2017, as well as new sub-classes being added such as Excess Casualty and Political Violence in 2017 and Cyber in 2018.

Significant investment has been made by the Hamilton Group in its Lloyd's platform. This includes investment in a fully integrated underwriting and claims system as well as utilisation of a Group proprietary analytics and risk platform. The investment made has been designed to build for the future, thereby facilitating increased scale.

Capacity

The capacity of the 2018 year of account is £120.9m supporting planned gross written premiums of £149.5m. The prior year capacity for the 2017 year of account is £98.8m supporting planned gross written premiums of £122.5m. All capacity is provided by the Hamilton Group, which has shareholder equity of over USD 1.8 billion.

Report of the Managing Agent *continued*

Review of activities in the year

Overview

The results for the year are set out on pages 16 and 17. On an annually accounted basis the result for the calendar year 2018 is a loss of £23.4m (2017: loss of £38.9m). This is made up of a loss on the technical account of £25.4m (2017: loss of £37.8m), investment return on funds in syndicate of £0.5m (2017: not applicable) and exchange gain of £1.5m (2017: loss of £1.1m).

During the year ended 31 December 2017 the managing agency managed three open years of account, 2015, 2016 and 2017 and three run-off years, 2012, 2013 and 2014. On 14 February 2018, the managing agency entered in to an external reinsurance to close agreement ('RITC') for each of the three run-off years, which contained the specialist sports and leisure book managed by the previous owners. As a result, the assets and liabilities of these years within the balance sheet as at 31 December 2017, were transferred to Syndicate 3330's 2018 year of account managed by Coverys Managing Agency Limited. The loss for the year ended 31 December 2017 includes the premium payable on the RITC within the results of the run-off years. The results for the year ended 31 December 2018 arise wholly from business written by underwriters employed by Hamilton since the purchase of HUL.

The key performance indicators for the calendar year are set out below:

Key performance indicators	2018	2017
Gross premiums written	£134.6 million	£109.4 million
Earned premiums, net of reinsurance	£79.3 million	£61.6 million
Gross combined ratio	118.0%	146.4%
Net combined ratio	132.6%	161.9%
Members' balances	£(14.9) million	£(53.2) million
Cash and investments including overseas deposits	£46.4 million	£54.5 million
Funds in Syndicate held as investments	£48.5 million	n/a

The directors monitor business on a gross basis. Gross written premiums for the year ended 31 December 2018 were £134.6m, a 23% increase on the prior year premiums of £109.4m, in line with the expected growth trajectory of the Hamilton led underwriting platform. Most of this growth came from the 2018 underwriting year of account which contributed £110.7m in its first calendar year of writing, (2017 year of account at 12 months: £91.2m). Both of these open underwriting years of account are forecast on an ultimate basis to write to plan. Further information on gross written premiums is provided in the Divisional Analysis below.

Review of activities in the year ***continued***

Divisional analysis

The split of gross written premiums by division is set out below:

Division	2018 £'m	2017 £'m
Property	20.9	16.0
Treaty/reinsurance	28.2	25.8
Casualty/professional	40.5	30.6
Speciality	31.6	24.6
Space	6.6	6.8
Marine	6.8	4.6
	134.6	**108.4**
Run-off years adjustments to gross premiums	–	1.0
Total	**134.6**	**109.4**

Property

The worldwide Property D&F book offers All Risks of Physical Loss or Damage including Machinery Breakdown and Business Interruption coverage. Coverage for some standalone catastrophe perils is also offered. Our flexible approach to underwriting enables the team to deploy capacity on a Primary and Excess of Loss basis, and as reinsurance or direct business. The D&F market continues to be a competitive environment, both in London and globally, although rate increases have been achieved in certain elements of this portfolio. 2017 was an active year from a Natural Catastrophe perspective and produced industry losses on a par with that of 2005.

Treaty/reinsurance

Our focus is on short-tail classes, worldwide, offering products including:

- Energy: offered on excess of loss and pro rata bases for onshore/offshore, power generation, renewables, wind and Gulf of Mexico.
- Marine: offered for hull, yacht, cargo, specie, fine art, marine liability and marine war.
- Property: per risk, catastrophe and pro rata coverage for commercial and residential accounts.
- War and Terrorism: excess of loss and treaty basis, including for country pools.
- Accident and Health: per risk and catastrophe coverage on excess of loss and treaty bases.

During the year there was a change in underwriting team, which resulted in premium growth being lower than that secured by other core divisions. The new Class Underwriter has been actively reviewing the portfolio and moves in to the 2019 renewal season with a re-engineered Treaty book seeking to maximise return in this division, which is currently experiencing rate strengthening off the back of recent loss events.

Review of activities in the year *continued*

Divisional analysis (continued)

Casualty/professional

This division includes the Excess Casualty, General Liability, Cyber and D&O classes as on-going business. The latter three classes are written through specific business arrangements with MGAs and consortia, arrangements which have been added to during 2018, leading to £6.5m of growth during the year. Part of the Casualty business is written through a Group service company, based in Bermuda. The Excess Casualty business, which was added to the portfolio in 2017, demonstrated strong growth during the year. The Syndicate ceased underwriting Professional Indemnity in late 2018.

Speciality:

The Speciality division comprises cover for Personal Accident, Financial Institutions and, Political Violence. Further details are as follows:

- The Personal Accident portfolio consists of a significant number of binding authorities, which the Syndicate leads, as well as business acquired in the open market. The portfolio includes Group and Individual Personal Accident and Sickness cover (for most occupations), Medical Expense Reimbursement and Catastrophe Excess of Loss business.
- Financial Institution products include: Bankers Blanket Bond, Professional Indemnity, Directors & Officers for financial institutions and Commercial Crime cover for non-financial institutions. The book continues to have a limited exposure to large financial institutions. Rate momentum was positive during the year, and this class contributed half of the total growth in the division.
- The Political Violence team underwrite all major products in this class, as well as specialist and/or more recent products such as Contingent Business Interruption, Active Assailant, Loss of Attraction and Threat. 2018 was the first full year of writing this class and contributed 38% of the divisional growth.
- Contingency business was a small part of the Speciality division and was discontinued in late 2018.

Space

The Space team offer launch and in-orbit coverage for launch providers, satellite owners, operators and manufacturers worldwide. For launch this is either Launch Vehicle Flight Only or Launch plus Post-separation. In-orbit coverage is typically renewed on an annual basis. The space market continued to soften during 2018, with very few launch placements in early 2018, and an uncompetitive rating environment, which has led to a slight reduction in premiums.

Marine

The account is comprised of two main sub-classes: Marine Liability and Energy Liability. In addition, we also write a small amount of Seafarers' Abandonment business. The Class Underwriter was hired in 2017 and has grown the business during the year ended 31 December 2018.

Report of the Managing Agent *continued*

Review of activities in the year *continued*

Claims environment

2018 saw a second consecutive year of relatively high catastrophe losses impacting the worldwide (re)insurance market. As reported last year the hurricane losses of Harvey, Irma and Maria contributed to a higher than planned combined ratio for Hamilton's 2017 financial year. Together with the September 2017 Mexico earthquakes the net loss impact of these CAT loss events resulted in £18.5m of net claims in 2017. The overall cost of these losses remained within our initial expectations during 2018. The Directors are pleased that despite the Syndicate years under Hamilton's ownership being at a very early stage of development we were able to withstand the combined impact of these global losses without recourse to our secured borrowing facilities.

In late 2018 a further period of severe CAT loss activity occurred, including two super typhoons, Jebi and Mangkhut, affecting the Pacific, two significant hurricanes, Florence and Michael, making landfall in the United States and then wildfires in California causing unprecedented market losses. The main impact on the Syndicate's results arose from the US hurricanes, with limited exposure arising in the Pacific and California. The net cost of the 2018 events is forecast to be £8.2m.

The other claims factor impacting the 2018 net combined ratio relates to the professional indemnity book, where significant reserves were added to the class following a review of cladding exposures and other potential claims from this book. This is estimated to have added 8% percentage points to the net combined ratio for the year.

The sole corporate member has elected not to receive separate underwriting year accounts.

Investment return

During the year ended 31 December 2018, the corporate member elected to place Funds In Syndicate as part of the overall capital provision for the Syndicate. These funds are invested in a fixed income portfolio and have generated an investment return of £550,000 for the four months they have been invested. The total investment return on Syndicate assets was £454,000 (year ended 31 December 2017: £301,000). This included a return on assets deposited in a short-term bond portfolio since November 2018.

Closure of the 2016 underwriting year of account

This was the first year of account writing business for the new Hamilton at Lloyd's platform. The Directors are pleased with the progress of the year, which has written gross premiums as planned of £77m whilst maintaining its gross loss ratio at a rate closely aligned with the business plan rate during a challenging period for claims. The year is closing at a net combined ratio of 124%, key factors impacting the net ratio being a conservative approach to booking potential recoveries on longer-tail claims and a higher than anticipated net acquisition cost ratio. This is due to the mix of business written in this first year having a greater percentage of delegated authority business than initially planned for. The impact on acquisition costs of this change in the business source profile has been carried forward in to planning for subsequent underwriting years.

The claims provisions carried forward also include significant reserving added to the professional indemnity book during 2018, as referred to in the Claims environment section above. This class accounts for 45% of the carried forward net provisions for the 2016 pure year of account.

Future developments

Overview

The Syndicate continues to transact in the classes of general insurance and reinsurance business that it has transacted in during 2018, other than for a managed exit from the professional indemnity class, due to performance issues in this class, and exit of two smaller revenue streams, being the Contingency class and business written through the Lloyd's China platform. The agency's strategy remains to write profitable business, and not to grow the top line at the expense of profitability. Where possible management have reduced the cost-base incurred by the Syndicate. Notwithstanding this, it is also recognised that the Syndicate needs to achieve scale such that it can support the infrastructure costs of a full-service Lloyd's integrated vehicle. Until such scale is achieved, management expect the open years to close with losses.

EU

Whilst the risks to UK economic growth remain significant not least because of the UK's decision to leave the European Union ("EU") ("Brexit"), it should be noted that the proportion of business arising from the EU is not material to Syndicate 3334. The Syndicate has worked with Lloyd's during 2018 to ensure it had the necessary processes in place to be able to fully participate in the Lloyd's European insurance company platform from 2019.

2019 year of account

The Hamilton Group has provided the Funds at Lloyd's for the 2019 year of account. As the Syndicate's functional currency is US Dollars the capital base has been put up in US Dollars to avoid currency mismatching. The capacity for this year of account is £96.2m supporting forecast gross written premiums of £120m. Other than for the reduction in premiums resulting from exiting certain lines of business in the go forward plan as referenced above, stamp capacity for all other classes remains the same as 2018.

Post balance sheet events

Post balance sheet events are discussed in Note 16 to the accounts.

Principal risks and uncertainties

The Managing Agent has established a risk management function for the syndicate with clear terms of reference from the board of directors (the Board), its committees and the associated executive management committees. The Board approves the risk management policies and meets regularly to approve any commercial, regulatory and organisational requirements of such policies.

The Board sets risk appetite annually as part of the syndicate's business planning and capital setting process. The risk management function is also responsible for reviewing the syndicate's Own Risk and Solvency Assessment (ORSA), recommending the assessment to the Board for approval.

Principal risks and uncertainties *continued*

The principal risks and uncertainties facing the Syndicate are set out below, including references to Note 18 where additional information relating to these risks are provided in the financial statements:

Regulatory risk
The agency is required to comply with the requirements of the PRA and FCA and Lloyd's. Lloyd's requirements include those imposed on the Lloyd's market by overseas regulators, particularly in respect of US situs business. Regulatory risk is the risk of loss owing to a breach of regulatory requirements or failure to respond to regulatory change. The agency has a compliance officer who monitors regulatory developments and assesses the impact on agency policy. The compliance team carry out a compliance monitoring programme, the progress against which is reported to the Board on a quarterly basis.

Insurance risk (Note 18(c))
The principal risk the Syndicate faces under insurance contracts is that the actual claims and benefit payments or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long-term claims. The objective of the Syndicate is to ensure that sufficient reserves are available to cover these liabilities.

The Board manages insurance risk by agreeing its appetite for these risks annually through the business plan, which sets out targets for volumes, pricing, line sizes and retention by class of business. The Syndicate purchases reinsurance as part of its risks mitigation programme and the agency uses catastrophe modelling software to model maximum probable losses from catastrophe-exposed business.

The Board monitors performance and exposures against the business plan on a rolling monthly basis. Reserve adequacy is monitored through quarterly review by the syndicate actuary and the reserving committee.

Credit risk (Note 18(d) (1))
The key aspect of credit risk is the risk of default by one or more of the Syndicate's reinsurers or other counterparties. Compliance with the credit risk policy is monitored and exposures and breaches are reported to the Syndicate's finance and operations committee. The policy is regularly reviewed for pertinence and for changes in the risk environment.

Liquidity risk (Note 18(d) (2))
Liquidity risk is the risk that the Syndicate will encounter difficulty in meeting obligations associated with financial instruments. In respect of catastrophic events there is also a liquidity risk associated with the timing differences between gross cash out-flows and expected reinsurance recoveries.

A number of policies are implemented by the agency to mitigate against the risk of the Syndicate being unable to settle its obligations as they fall due.

Market risk (Note 18(d) (3))
The key aspect of market risk is that the Syndicate incurs losses on foreign exchange movements as a result of mismatches between the currencies in which assets and liabilities are denominated. The agency's finance committee reviews currency matching quarterly. Where there is a significant mismatch, the agency seeks to mitigate the risk through forward foreign currency contracts, where this is appropriate.

Principal risks and uncertainties *continued*

Interest rate and equity price risk (Note 18(d) (3))
The Syndicate does not hold any listed equities or portfolio assets that would be subject to equity price risk. The portfolio assets could be subject to interest rate risk. The assets are largely held in fixed income holdings which minimises the fluctuations in interest rate yield.

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

Research and development

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

Statement as to disclosure of information to auditors

In the case of each of the persons who are directors of the managing agent at the date this report is approved:

- so far as the director is aware, there is no relevant audit information, being information needed by the syndicate auditors in connection with the auditor's report, of which the auditor is unaware; and
- having made enquiries of fellow directors of the managing agent and the syndicate's auditor, each director has individually taken all the necessary steps to make themselves aware, as a director, of any relevant audit information and to establish that the Syndicate's auditor is aware of that information.

Auditors

Under the 2008 Regulations, the auditor is deemed to be reappointed in subsequent years if there is no objection. Ernst & Young LLP have indicated their willingness to continue in office as the independent auditor to the Syndicate and it is proposed that the appointment remains in force.

Annual general meeting

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

Dominic Ford
Director & Company Secretary

Approved by the board of Hamilton Underwriting Limited on 19th March 2019

Report of the Independent Auditor

to the Member of Syndicate 3334

Opinion

We have audited the syndicate annual accounts of syndicate 3334 ('the syndicate') for the year ended 31 December 2018 which comprise the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Members' Balances, the Statement of Financial Position, the Statement of Cash Flows and the related notes 1 to 18, 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 2018 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 managing agent's use of the going concern basis of accounting in the preparation of the syndicate annual accounts is not appropriate; or
- 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.

Report of the Independent Auditor

to the Member of Syndicate 3334 *continued*

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 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;
- we have not received all the information and explanations we require for our audit; or
- certain disclosures of the managing agents' emoluments specified by law are not made.

Report of the Independent Auditor
to the Member of Syndicate 3334 *continued*

Responsibilities of the managing agent
As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 4, 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.

Angus Millar
(Senior Statutory Auditor)

For and on behalf of Ernst & Young LLP, Statutory Auditor
London

21st March 2019

Income Statement
Technical account – General business
for the year ended 31st December 2018

	Notes	2018 £'000	2018 £'000	2017 £'000	2017 £'000
Gross premiums written	2	134,589		109,360	
Outward reinsurance premiums		(57,473)		(35,939)	
Change in the provision for unearned premiums					
Gross amount		(6,139)		(22,945)	
Reinsurers' share		8,310		11,139	
Earned premiums, net of reinsurance	4		79,287		61,615
Allocated investment return, transferred from the non-technical account			454		301
Claims paid – Gross amount		(43,444)		(29,215)	
– Reinsurers' share		13,395		3,197	
		(30,049)		(26,018)	
Change in claims outstanding:					
Gross amount		(58,139)		(57,532)	
Reinsurers' share		23,341		21,260	
Change in claims outstanding		(34,798)		(36,272)	
Claims incurred, net of reinsurance	3		(64,847)		(62,290)
Net operating expenses	6		(40,305)		(37,465)
Balance on the technical account for general business			(25,411)		(37,839)

Income Statement
Non-technical account – General business
for the year ended 31st December 2018

	Notes	2018 £'000	2017 £'000
Balance on technical account general business		(25,411)	(37,839)
Investment income on Syndicate assets	9a	454	301
Allocated investment return transferred to the general business technical account		(454)	(301)
Investment return on Funds in Syndicate	9b	550	–
Exchange gains and losses		1,505	(1,096)
Loss for the financial year		(23,356)	(38,935)

Statement of Other Comprehensive Income

for the year ended 31st December 2018

	2018	*2017*
	£'000	*£'000*
Loss for the financial year	(23,356)	(38,935)
Effect of foreign exchange translation	(3,548)	1,872
Total comprehensive income for the year	(26,904)	(37,063)

Statement of Changes in Members' Balances

for the year ended 31st December 2018

	2018	*2017*
	£'000	*£'000*
Members' balances brought forward at 1st January	(53,191)	(31,228)
Loss for the financial year	(23,356)	(38,935)
Effect of foreign exchange translation	(3,548)	1,872
Members' agents' fees	(20)	(20)
Transfers from members' personal reserves funds	1,736	15,300
Net movement on funds in syndicate	47,926	–
Run-off years' closure via external RITC	15,536	–
Other	–	(180)
Members' balances carried forward at 31st December	(14,917)	(53,191)

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

Members that only participate on one syndicate may hold the capital supporting their underwriting in their premium trust funds. These funds are known as funds in syndicate (FIS). At 31 December 2018 there was £48,506,000 (2017: £nil) of FIS within members' balances. Where a member takes advantage of this facility in the year, the movement is reflected in the above table as 'net movement on funds in syndicate'.

Statement of Financial Position

as at 31st December 2018

	Notes	2018 £'000	2018 £'000	2017 £'000	2017 £'000
Assets					
Financial investments					
Other financial investments	10		77,702		14,934
Reinsurers' share of technical provisions					
Provision for unearned premiums	4	27,035		17,403	
Claims outstanding	3	49,913		32,608	
			76,948		50,011
Debtors					
Debtors arising out of direct insurance operations	11	51,006		46,952	
Debtors arising out of reinsurance operations	11	25,652		3,727	
Other debtors		4,045		268	
			80,703		50,947
Other assets					
Cash at bank and in hand	13	10,540		31,689	
Overseas deposits		6,673		7,912	
			17,213		39,601
Prepayments and accrued income					
Deferred acquisition costs	5	14,339		12,626	
Other		2,059		1,144	
			16,398		13,770
Total assets			268,964		169,263

Statement of Financial Position *continued*

as at 31st December 2018

	Notes	*2018* £'000	*2018* £'000	*2017* £'000	*2017* £'000
Members' balances and liabilities					
Members' balances					
Members' balances			(14,917)		(53,191)
Liabilities					
Technical provisions					
Provision for unearned premiums	4	69,625		60,685	
Claims outstanding	3	142,035		116,773	
			211,660		177,458
Creditors					
Creditors arising out of direct insurance operations	12	2,116		6,737	
Creditors arising out of reinsurance operations	12	55,990		30,260	
Other creditors including taxation and social security		8,327		7,706	
			66,433		44,703
Accruals and deferred income			5,788		293
Total liabilities			283,881		222,454
Total members' balances and liabilities			268,964		169,263

The financial statements on pages 16 to 52 were approved by the Board of Hamilton Underwriting Limited on 19th March 2019 and were signed on its behalf by:

Belinda Taylor
Finance Director

Statement of Cash Flows

for the year ended 31st December 2018

	Notes	*2018* *£'000*	*2017* *£'000*
Loss for the financial year		(23,356)	(38,935)
Movement in general insurance unearned premiums and outstanding claims		34,202	74,878
Movement in reinsurer's share of unearned premiums and outstanding claims		(26,937)	(31,626)
Investment return		(1,004)	(301)
Movements in other assets/liabilities		(8,975)	13,077
Net cash inflow from operating activities		(26,070)	17,093
Investing activities			
Investment income received		1,004	301
Purchase of financial investments		(62,975)	(8,957)
Sales of financial investments		767	30
Net cash (outflow) from investing activities		(61,204)	(8,626)
Financing activities			
Cash call		–	15,300
Distribution loss collected		1,736	–
New funds in syndicate		47,926	–
External RITC liabilities transfer (run-off years)		15,536	–
Members' agents' fee advances		(20)	(20)
Net cash inflow from financing activities		65,178	15,280
(Decrease)/Increase in cash and cash equivalents		(22,096)	23,747
Cash and cash equivalents at 1 January		31,689	8,551
Exchange differences on opening cash		947	(609)
Cash and cash equivalents at 31 December	13	10,540	31,689

Notes to the Accounts

1. Accounting policies

Statement of compliance

The financial statements have been prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and FRS 102 and FRS 103, being applicable UK GAAP accounting standards, and in accordance with the provisions of Schedule 3 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations relating to insurance companies.

The financial statements are prepared under the historical cost convention.

Basis of preparation

The financial statements for the year ended 31 December 2018 were approved for issue by the Board of Directors on 19th March 2019.

On 1 January 2017, the functional currency for the years of account 2015 onwards was changed to US Dollars. The financial statements are prepared in Sterling as the presentation currency of the syndicate and rounded to the nearest £'000. The Syndicate uses Sterling as the presentation currency as this is the required presentation currency in the regulatory financial returns submitted to Lloyd's.

As permitted by FRS 103 the syndicate continues to apply the existing accounting policies that were applied prior to this standard for its insurance contracts.

Judgements and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates. The key uncertainty relates to estimated premium income and claims provisions, the policies for which are set out in Note 1(a)(i) and Note 1(a)(v).

Significant accounting policies

(a) *Basis of accounting*

The financial statements have been prepared on an annual basis of accounting, whereby the incurred cost of claims, commission and related expenses are charged against the earned proportion of premiums, net of reinsurance as follows:

(i) *Premiums written*

Premiums written comprise premiums on contracts incepted during the financial year. They also include estimates for pipeline premiums, representing amounts due to the syndicate not yet notified. Premiums are shown gross of brokerage payable and exclude taxes and duties levied on them.

(ii) *Unearned premiums*

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

Notes to the Accounts *continued*

1. Accounting policies *continued*

(iii) *Reinsurance premium ceded*
Outwards reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct or inwards business being reinsured.

(iv) *Claims incurred*
Claims incurred comprise claims and settlement expenses (both internal and external) paid in the year and the movement in provision for outstanding claims and settlement expenses, including an allowance for the cost of claims incurred by the balance sheet date but not reported until after the year end.

(v) *Claims provisions and related recoveries*
The provision for claims comprises amounts set aside for claims notified and claims incurred but not yet reported (IBNR). Notified claims are estimated on a case by case basis with regard to the circumstances as reported, any information available from loss adjusters and previous experience of the cost of settling claims with similar characteristics.

The amount included in respect of IBNR is based on and informed by estimates from internal and external actuaries, who have applied statistical techniques of estimation and judgement applied by the Syndicate's staff and reviewed by external consulting actuaries. These techniques generally involve projecting future claims development patterns using relevant benchmark data, and the Syndicate's own claims from past experience where relevant, for the relevant classes of business 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 there is no prior history in the Syndicate's own books, estimates may also be informed in part on output from rating and other models of the business accepted and assessments of underwriting conditions.
Provisions for claims include amounts in respect of internal and external claims handling costs.

Reinsurers' shares of gross claims are based on gross claims paid and calculated amounts of gross outstanding claims and projections for gross IBNR, net of estimated irrecoverable amounts, having regard to the reinsurance programme in place for the class of business and the claims experience for the year and the current security rating of the reinsurance companies involved. The Syndicate uses a number of statistical techniques to assist in making these estimates. The two most critical assumptions as regards claims provisions are that the past is a reasonable predictor of the likely level of claims development and that the rating and other models used for current business are fair reflections of the likely level of ultimate claims to be incurred.

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

1. **Accounting policies** *continued*

(b) *Insurance contracts – Product classification*
Insurance contracts are those contracts where the syndicate has accepted significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the re/insured event) adversely affects the policyholders. As a general guideline, the Syndicate determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire.

(c) *Technical provisions*
Technical provisions comprise claims outstanding, provisions for unearned premiums and provisions for unexpired risks.

(d) *Unexpired risks provision*
A provision for unexpired risks is made where claims and related expenses likely to arise after the end of the financial period in respect of contracts concluded before that date, are expected to exceed the unearned premiums and premiums receivable under these contracts, after the deduction of any acquisition costs. The provision for unexpired risks is calculated separately by reference to classes of business which are managed together. No account is taken of any future investment return. At 31 December 2018 and 31 December 2017 the Syndicate did not have an unexpired risks provision.

(e) *Cash and cash equivalents and overseas deposits*
Cash and cash equivalents in the statement of financial position comprise cash at banks and in hand and short term deposits with an original maturity date of three months or less. For the purpose of the cash flow statement, cash and cash equivalents consist of cash and cash as defined above, net of outstanding bank overdrafts. Short term deposits which are held in collective investment schemes are recognised as Financial Investments in the Statement of Financial Position. The fair value of these short term deposits are valued using FRS 102 Level 2 hierarchy, being inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Financial assets are also held in overseas deposit funds which are valued using either Level 2 hierarchy or Level 1 being quoted (unadjusted) prices in active markets for identical assets or liabilities.

Notes to the Accounts *continued*

1. Accounting policies *continued*

(f) *Derecognition of financial assets*

A financial asset or, when applicable, a part of a financial asset is derecognised when:

- the rights to the cash flows from the asset have expired; or
- the Syndicate retains the right to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass through' arrangement and either (a) the Syndicate has transferred substantially all the risks and rewards of the asset; or (b) the Syndicate has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Syndicate has transferred its right to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards nor transferred control of the asset, the asset is recognised to the extent of the syndicate's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the syndicate could be required to repay. In that case, the syndicate also recognises an associated liability.

(g) *Offsetting of financial instruments*

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if:

- there is a currently enforceable legal right to offset the recognised amounts; and
- there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

(h) *Financial liabilities*

The Syndicate's financial liabilities include trade and other payables, borrowings, insurance payables and derivative financial instruments, where applicable. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

Trade and other payables and loans and borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate method (EIR) amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in investment return in the profit or loss.

A financial liability is derecognised when the obligation under the liability is discharged or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of the existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective amounts is recognised in profit or loss.

1. Accounting policies *continued*

(i) Deferred acquisition costs

Acquisition costs comprise costs arising from the conclusion of insurance contracts. They include both direct costs, such as intermediary commissions or the cost of drawing up the insurance document or including the insurance contract in the portfolio, and indirect costs, such as the advertising costs or the administrative expenses connected with the processing of proposals and the issuing of policies.

Deferred acquisition costs are the direct costs arising from conclusion of insurance contracts that are incurred during the reporting period but which relate to a subsequent reporting period and which are carried forward to subsequent reporting periods.

The deferred acquisition costs are amortised over the period in which the related premiums are earned.

(j) Reinsurance assets

The Syndicate cedes insurance risk in the normal course of business for all of its businesses. Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contract.

Reinsurance assets are reviewed for impairment at each reporting date, or more frequently, when an indication of impairment arises during the reporting year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Syndicate may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the syndicate will receive from the reinsurer. The impairment loss is recorded in the income statement.

Gains or losses on buying reinsurance are recognised in the income statement immediately at the date of purchase and are not amortised. There were no such gains recognised in 2018 or 2017.

Ceded reinsurance arrangements do not relieve the Syndicate from its obligations to policyholders.

1. Accounting policies *continued*

(k) Insurance receivables

Insurance receivables are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. Subsequent to initial recognition, insurance receivables are measured at amortised cost, using the effective interest rate method. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the income statement. Insurance receivables are derecognised when the de-recognition criteria for financial assets have been met.

(l) Insurance payables

Insurance payables are recognised when due and measured on initial recognition at the fair value of the consideration received less directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest rate method. Insurance payables are derecognised when the obligation under the liability is settled, cancelled or expired.

(m) Foreign currencies

The syndicate's functional currency is US Dollars for the open years effective from 1 January 2017 and in the prior comparative year was Sterling for the run-off years. The presentation currency is Sterling.

Transactions denominated in currencies other than the functional currency are recorded at the average rates of exchange for the period.

Monetary assets and liabilities (which includes all assets and liabilities arising from insurance contracts including deferred acquisition costs and unearned premiums) denominated in foreign currencies are translated into the functional currency at the rates of exchange at the balance sheet dates unless contracts to sell currency for US Dollars or Sterling as applicable have been entered into prior to the year end, in which case the contracted rates have been used.

Differences arising on the translation of foreign currency amounts are included in the non-technical account.

Amounts transferred to members are translated at the rate of exchange ruling at the date of payment except for the payment of closed year profits which are translated at the rate of exchange ruling at the previous balance sheet date.

(n) Investments

Investments are stated at current value at the balance sheet date. For this purpose, listed investments and overseas deposits are stated at mid-market value and deposits with credit institutions are stated at cost. Unlisted investments for which a market exists are stated at the average price at which they were traded on the balance sheet date or the last trading day before that date.

Notes to the Accounts *continued*

1. Accounting policies *continued*

(o) Investment return

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

Realised gains and losses on investments carried at market value are calculated as the difference between sale proceeds and purchase price. Movements in unrealised gains and losses on investments represent the difference between their valuation at the balance sheet date and their purchase price or, if they have been previously valued, their valuation 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 general business technical account to reflect the investment return on funds supporting underwriting business. All of the investment return identified in the profit and loss statement as 'Investment income on Syndicate assets' is considered to arise on such funds.

The investment return on Funds in Syndicate is recorded and retained in the non-technical account.

(p) Taxation

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

No provision has been made for any United States Federal Income Tax payable on underwriting results or investment earnings. Any payments on account made by the syndicate are included in the statement of financial position under the heading 'other debtors'.

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

(q) Pension costs

HUL operates a defined contribution pension scheme and its recharges to the Syndicate in respect of staff costs include an element for pension costs. These pension costs are expensed in full in the period to which the recharge relates.

(r) Profit commission

Profit commission is charged by the managing agent at a rate of 15% of profit subject to the operation of a deficit clause.

Notes to the Accounts *continued*

2. Particulars of business written

Type of business

An analysis of the technical account balance before investment return is set out below:

2018	*Gross premiums written*	*Gross premiums earned*	*Gross claims incurred*	*Gross operating expenses**	*Re-Insurance balance*	***Total***
	£'000	*£'000*	*£'000*	*£'000*	*£'000*	***£'000***
Direct insurance:						
Accident and health	14,517	14,740	(8,675)	(6,660)	(2,364)	**(2,959)**
Aviation	23,657	21,417	(16,162)	(5,837)	(2,315)	**(2,897)**
Energy – Non Marine	3,986	3,520	(1,592)	(974)	(686)	**268**
Fire and other damage of property	25,804	23,699	(22,302)	(6,496)	(1,564)	**(6,663)**
Third party liability	46,153	43,474	(41,608)	(14,649)	(1,197)	**(13,980)**
Pecuniary loss	4,458	4,776	(1,832)	(1,805)	(1,045)	**94**
	118,575	111,626	(92,171)	(36,421)	(9,171)	**(26,137)**
Reinsurance	16,014	16,824	(9,412)	(3,885)	(3,255)	**272**
	134,589	**128,450**	**(101,583)**	**(40,305)**	**(12,427)**	**(25,865)**

Notes to the Accounts *continued*

2. Particulars of business written

2017	*Gross premiums written*	*Gross premiums earned*	*Gross claims incurred*	*Gross operating expenses**	*Re-insurance balance*	*Total*
	£'000	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*
Direct insurance:						
Accident and health	13,760	10,260	(7,152)	(4,448)	(944)	(2,284)
Aviation	18,067	11,467	(5,685)	(4,971)	(1,484)	(673)
Energy – Non Marine	4,747	3,886	(1,854)	(1,685)	(597)	(250)
Fire and other damage of property	17,110	16,910	(23,110)	(7,331)	1,611	(11,920)
Third party liability	35,343	24,525	(23,185)	(10,633)	(576)	(9,869)
Pecuniary loss	4,536	4,218	(4,575)	(1,829)	69	(2,117)
	93,563	71,266	(65,561)	(30,897)	(1,921)	(27,113)
Reinsurance	15,797	15,149	(21,186)	(6,568)	1,578	(11,027)
	109,360	86,415	(86,747)	(37,465)	(343)	(38,140)

* Gross operating expenses are the same as net operating expenses shown in the income statement

Geographical analysis by origin	*Gross premiums written*		*Loss*		*Net technical provisions*	
	2018	*2017*	***2018***	*2017*	***2018***	*2017*
	£'000	*£'000*	***£'000***	*£'000*	***£'000***	*£'000*
UK						
Direct/reinsurance accepted	**134,589**	109,360	**(25,865)**	(38,140)	**(92,122)**	(84,165)

Notes to the Accounts *continued*

2. Particulars of business written

Geographical analysis by destination	*2018*	*2017*
	£'000	*£'000*
UK	40,959	46,424
Europe	8,292	8,194
North America	52,720	32,207
Australasia	6,781	4,244
Other	25,837	18,291
	134,589	109,360

Notes to the Accounts *continued*

3. Claims outstanding

2018	*Gross* *£'000*	*Reinsurer's share* *£'000*	*Net* *£'000*
At 1 January 2018	**116,773**	**(32,608)**	**84,165**
Claims incurred in current underwriting year	**45,912**	**(16,977)**	**28,935**
Claims incurred in prior underwriting years	**55,671**	**(19,759)**	**35,912**
Claims incurred during the year	**101,583**	**(36,736)**	**64,847**
Claims paid during the year	**(43,444)**	**13,395**	**(30,049)**
External RITC transfer (run-off years)	**(37,982)**	**7,256**	**(30,726)**
Foreign exchange	**5,105**	**(1,220)**	**3,885**
As at 31 December 2018	**142,035**	**(49,913)**	**92,122**

2017	*Gross* *£'000*	*Reinsurer's share* *£'000*	*Net* *£'000*
At 1 January 2017	62,137	(11,383)	50,754
Claims incurred in current underwriting year	18,857	(5,147)	13,710
Claims incurred in prior underwriting years	67,890	(19,310)	48,580
Claims incurred during the year	86,747	(24,457)	62,290
Claims paid during the year	(29,215)	3,197	(26,018)
Foreign exchange	(2,896)	35	(2,861)
As at 31 December 2017	116,773	(32,608)	84,165

4. Provision for unearned premiums

2018	*Gross*	*Reinsurer's share*	*Net*
	£'000	*£'000*	*£'000*
At 1 January 2018	**60,685**	**(17,403)**	**43,282**
Premiums written in the year	**134,589**	**(57,473)**	**77,116**
Premiums earned in the year	**(128,450)**	**49,163**	**(79,287)**
Foreign exchange	**2,801**	**(1,322)**	**1,479**
As at 31 December 2018	**69,625**	**(27,035)**	**42,590**

2017	*Gross*	*Reinsurer's share*	*Net*
	£'000	*£'000*	*£'000*
At 1 January 2018	40,443	(7,002)	33,441
Premiums written in the year	109,360	(35,939)	73,421
Premiums earned in the year	(86,415)	24,800	(61,615)
Foreign exchange	(2,703)	738	(1,965)
As at 31 December 2018	60,685	(17,403)	43,282

5. Deferred acquisition costs

	2018 £'000	2017 £'000
At 1 January	12,626	7,620
Change in deferred acquisition costs	1,159	5,538
Foreign exchange	554	(532)
As at 31 December	14,339	12,626

6. Net operating expenses

	2018 £'000	2017 £'000
Acquisition costs	34,945	28,999
Change in deferred acquisition costs	(1,159)	(5,538)
Administrative expenses	16,176	16,347
Reinsurance commissions	(9,657)	(2,343)
	40,305	37,465

Administrative expenses include:

	£'000	£'000
Auditor's remuneration		
Audit of Syndicate annual accounts	160	263
Other services pursuant to Regulations & Lloyd's Byelaws	13	42
Standard personal expenses	2,265	2,603

Fees charged to HUL for the statutory audit of the Company were £18,000 (2017: £21,000).

Total commissions for direct insurance accounted for in the year amounted to £26,249,000 (2017: £21,560,000).

Notes to the Accounts *continued*

7. Staff numbers and costs

a) All staff are employed by the managing agency. The following amounts were recharged to the Syndicate in respect of salary costs:

	2018	*2017*
	£'000	*£'000*
Salary costs	9,823	6,476
Pensions	1,904	711
	11,727	7,187

b) The average numbers of employees employed by the managing agency but working for the Syndicate during the year was as follows:

	2018	*2017*
	No.	*No.*
Administration, compliance and finance	55	48
Underwriting and claims	21	19
	76	67

8. Directors' emoluments

a) Emoluments of the directors of Hamilton Underwriting Limited.

HUL charged the syndicate the following amounts in respect of emoluments paid to its directors:

	2018	*2017*
	£'000	*£'000*
Emoluments	**800**	770

b) Emoluments of the Active Underwriter

The emoluments of the Active Underwriters (see note below) as charged to the syndicate are shown below:

	2018	*2017*
	£'000	*£'000*
Emoluments	**452**	272

Effective 26 February 2018, Trevor Carvey resigned as Active underwriter and the role of Active Underwriter from that date was assigned on a joint basis to two senior underwriters, Adrian Daws and Miles Osorio. The emoluments for the year ended 31 December 2018 are stated for these three individuals on a pro-rata basis during time served as Active Underwriter(s).

Notes to the Accounts *continued*

9. Investment return

9a. Investment return on Syndicate assets

	2018 *£'000*	*2017* *£'000*
Income from financial investments designated as at fair value through profit or loss	**20**	–
Interest on cash at bank and overseas deposits	**354**	366
	374	366
Gains/(losses) on the realisation of investments designated as fair value through profit or loss	**80**	(65)
	454	301

	2018	2017
Average amount of syndicate funds available for investment during the year ("average funds")	**£28.4m**	£33.1m
Split:		
Sterling/Euros	**£12.6m**	£11.6m
Dollars*	**£15.9m**	£21.5m
Investment return	**£454,082**	£301,180
Calendar year investment yield:	*%*	*%*
Sterling/Euros	**0.5**	0.2
Dollars*	**2.5**	1.0

* Primarily US dollars

9b. Investment return on Funds in Syndicate

	2018 *£'000*	*2017* *£'000*
Income from financial investments designated as at fair value through profit or loss	**321**	–
Gains on the realisation of investments	**229**	–
	550	–

Notes to the Accounts *continued*

10. Financial investments

	2018		2017	
	Cost	**Market value**	Cost	Market value
	£'000	**£'000**	£'000	£'000
Shares and other variable yield securities	**21,251**	**21,251**	14,934	14,934
Debt securities and other fixed income securities	**55,952**	**56,261**	–	–
Participation in investment pools	**190**	**190**	–	–
	77,393	**77,702**	14,934	14,934

All investments are designated as fair value through profit or loss. The carrying value of these investments is same as market value. As at 31 December 2018 £48,506,000 of the market value was held as Funds in Syndicate (31 December 2017: £nil).

The following table shows financial investments recorded at fair value analysed between the three levels in the fair value hierarchy.

	2018			
	Level 1	**Level 2**	**Level 3**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
Shares and other variable yield securities	**15,943**	**5,308**	–	**21,251**
Debt securities and other fixed income securities	**–**	**56,261**	–	**56,261**
Participation in investment pools	**190**	**–**	–	**190**
	16,133	**61,569**	–	**77,702**

	2017			
	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Shares and other variable yield securities	–	14,934	–	14,934
Debt securities and other fixed income securities	–	–	–	–
Participation in investment pools	–	–	–	–
	–	14,934	–	14,934

10. Financial investments continued

Included in the **level 1** category are financial assets that are measured by reference to published quotes in in active market. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry syndicate, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis

Included in the **level 2** category are financial assets measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions. For example, assets for which pricing is obtained via pricing services but where prices have not been determined in an active market, financial assets with fair values based on broker quotes, investments in private equity funds with fair values obtained via fund managers and assets that are valued using the Syndicate's own models whereby the significant inputs into the assumptions are market observable.

11. Debtors arising out of direct insurance and reinsurance operations

	2018	*2017*
	£'000	*£'000*
Debtors arising out of direct insurance operations:		
Amounts falling due from intermediaries within one year	51,006	45,349
Amounts falling due from intermediaries after one year	–	1,603
	51,006	46,952
Debtors arising out of reinsurance operations:		
Amounts falling due within one year	7,394	3,727
Amounts falling due after one year	18,258	–
	25,652	3,727

12. Creditors arising out of direct insurance and reinsurance operations

	2018	*2017*
	£'000	*£'000*
Creditors arising from direct insurance operations:		
Amounts falling due within one year	2,116	6,737
Amounts falling due after one year	–	–
	2,116	6,737
Creditors arising from reinsurance operations:		
Amounts falling due within one year	20,010	30,193
Amounts falling due after one year	35,980	67
	55,990	30,260

Notes to the Accounts *continued*

13. Cash and cash equivalents

	2018	*2017*
	£'000	*£'000*
Cash at bank and in hand	**10,540**	31,689
	10,540	31,689

14. Borrowings

During the period to 31st December 2018, the syndicate renewed unsecured overdraft facilities with Barclays Bank plc (Barclays), as a buffer against any timing differences between premium receipts and claims and other expense payments being made. This facility was available for use against the Sterling, Euro, US and Australian dollar accounts. The gross and net balances outstanding at Barclays as at 31st December 2018 across all years of account were £nil. In addition, during the period to 31st December 2018 the Syndicate took out committed facilities of USD 35 million, for funding of catastrophe claims and other liabilities; neither of these facilities were utilised as at 31st December 2018.

15. Related parties

Related party disclosure exemption

The Syndicate has taken advantage of the exemption given by FRS 102 Section 33 Related Party Disclosures to wholly owned subsidiary undertakings, by not disclosing information on related party transactions with entities that are part of the group, or investees of the group qualifying as related parties.

Managing agent

Hamilton Underwriting Limited ('HUL') is the managing agent of the Syndicate and is a wholly owned subsidiary of Hamilton UK Holdings Limited ('HUK').

Capital support

Capital to support the underwriting of the Syndicate is provided by Hamilton Corporate Member Limited.

Ultimate parent

The ultimate parent company of HUL, HUK and HCM is Hamilton Insurance Group, Limited, a company registered in Bermuda.

16. Post balance sheet events

The 2016 year of account closed on 31 December 2018 and the 2017 year of account which has accepted the reinsurance to close of this year will receive the uncalled losses of this year of account on or before the Lloyd's distribution date of 14th June 2019.

17. Funds at Lloyds/Funds in Syndicate

In case syndicate assets prove insufficient to meet members' underwriting liabilities, every member is required to hold additional capital at Lloyd's which is held in trust and known as Funds at Lloyd's (FAL). However, it can also be held by aligned corporate members within their syndicate's premiums trust fund (PTF) and is known as Funds in Syndicate (FIS).

Lloyd's requires a member to maintain a level of FAL or/and FIS based on compliance with PRA requirements. The amount is determined by the Managing agent and Lloyd's according to the nature and the amount of risk to be underwritten by the member and the assessment of the reserving risk in respect of business that has been underwritten. FAL and FIS are not owned by the Syndicate, hence, there are no specific funds available to the Syndicate which can be precisely identified as its capital resources.

18. Risk management

a) Governance framework

HUL's Risk Governance framework follows a three lines of defence approach with the Internal Model and risk management at the centre of its business as usual activity. HUL's governance structure was designed to provide robust assurance to the Board and to support effective risk-based capital management and decision making.

HUL's Board retains ownership of risk management policies, the ORSA process, the Internal Model and business planning processes and delegates operational responsibility for using the Internal Model to monitor the evolution of Syndicate 3334's risk profile to the first line committees. First line committees compare Key Risk Indicators against Board approved risk appetites and management tolerances, which enables the senior management to make effective decisions to ensure Syndicate 3334's strategic goals are achieved. Deviations from risk appetites and management tolerances are escalated to the Board. The Risk Management Function challenges HUL's first line of defence and provides assurance to the Board with regards the integrity of Internal Model and proportionality of control environment.

Risk profile monitoring informs the ORSA process, which in turn feeds the business planning and the strategy setting process.

b) Capital management objectives, policies and approach

Capital Framework at Lloyd's

The Society of 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.

Effective 1 January 2018, Lloyd's is subject to the Solvency II capital regime and the Solvency 1 figures are no longer applicable from that date. Although the capital regime has changed, this does not significantly impact the Solvency Capital Requirement of the Syndicate, since this has been previously calculated based on Solvency II principles.

18. Risk management *continued*

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, licencing 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 apply at overall and member level only respectively, not at syndicate level. Accordingly, the capital requirement in respect of Syndicate 3334 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 Solvency Capital Requirement (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 SCRs of each syndicate are subject to review by Lloyd's and approval by the Lloyd's Capital and Planning Group.

A syndicate may be comprised of one or more underwriting members of Lloyd's. Each member is liable for its own share of underwriting liabilities on the syndicate on which it participating but not other members' shares. Accordingly, the capital requirement that Lloyd's sets for each member operates on a similar basis. Each member's SCR shall thus be determined by the sum of the member's share of the Syndicate SCR 'to ultimate'. Where a member participates on more than one syndicate, a credit for diversification is provided to reflect the spread of risk, but consistent with determining an SCR which reflects the capital requirement to cover a 1 in 200 year loss 'to ultimate' for that member. Over and above this, Lloyd's applies a capital uplift to the member's capital requirement, known as the 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 2018 was 35% of the member's SCR 'to ultimate'.

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 on page 20, represent resources available to meet members' and Lloyd's capital requirements.

Capital resources

The Syndicate is capitalised by Hamilton Corporate Member Ltd (HCM) through a mixture of Funds at Lloyd's and Funds in Syndicate. HCM was elected as a corporate member in late 2014 to support the 2015 and future years of account.

The Hamilton Insurance Group (HIG) wholly owns HCM. All funding comes from within HIG.

18. **Risk management** ***continued***

HIG has committed to support growth of the platform to reach a meaningful and relevant size. There is extensive surplus capital available with facilities in place to draw down further funds at short notice should there be an appropriate acquisition opportunity.

c) Insurance risk

Insurance risk is the risk that the actual claims and benefit payments or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long-term claims. Therefore, the objective of the Syndicate is to ensure that sufficient reserves are available to cover these liabilities.

HUL has an insurance risk policy that sets out the approach to managing insurance risk. Compliance with the policy is monitored via defined management tolerances. Any deviations are highlighted to the Underwriting and Claims Committee. The policy is reviewed regularly as part of the overall documentation review process and for changes to the risk profile.

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

The Syndicate purchases reinsurance as part of its risks mitigation programme. Reinsurance ceded is placed on both a proportional and non-proportional basis. The majority of proportional reinsurance is quota-share reinsurance which is taken out to reduce the overall exposure to certain classes of business. Non-proportional reinsurance is primarily excess-of-loss reinsurance designed to mitigate the Syndicate's net exposure to catastrophe losses. Retention limits for the excess-of-loss reinsurance vary by product line and territory.

Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contracts. Although the Syndicate has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to ceded insurance, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements. The Syndicate's placement of reinsurance is diversified such that it is neither dependent on a single reinsurer nor are the operations substantially dependent upon any single reinsurance contract.

The Syndicate principally issues the following types of general insurance contracts: accident and health, third-party liability, marine, fire and peril. Risks usually cover twelve months.

The most significant risks arise from climate changes, natural disasters and terrorist activities. For longer tail claims that take some years to settle, there is also inflation risk.

The above risk exposure is mitigated by diversification across a large portfolio of insurance contracts and geographical areas. 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.

18. Risk management *continued*

The Syndicate has also limited its exposure by imposing maximum claim amounts on certain contracts as well as the use of reinsurance arrangements in order to limit exposure to catastrophic events (e.g., hurricanes, earthquakes and flood damage).

The Hamilton Group utilises multiple approaches, dependent upon specific classes of business, when managing catastrophe exposures across its entire portfolio. The Syndicate is aware that natural catastrophe vendor models cannot capture all eventualities, and therefore utilises the Group's proprietary pricing and portfolio system, which integrates directly with licensed vendor models, to manage natural catastrophe risk.

The Syndicate is aware of the potential concentration in exposures to natural catastrophes, and manages the accumulations of risks through probabilistic assessment of key regions and perils over multiple return periods as well as monitoring a series of Realistic Disaster Scenarios ('RDS'). The RDS reflects the amount of exposure and potential loss to the Syndicate based on a selection of events. The approach outlined ensures a consistent, repeatable and measurable result.

As a guide to the level of catastrophe exposure the syndicate is exposed to, the table below shows our key RDS exposure scenarios that are in force from 2018:

RDS ($m)	ESTIMATED GROSS CLAIMS	ESTIMATED NET CLAIMS
Gulf of Mexico Windstorm - Onshore/Offshore	70	12
California Earthquake - Los Angeles	56	12
California Earthquake - San Francisco	53	12

18. Risk management *continued*

Furthermore, strict claim review policies to assess all new and ongoing claims, regular detailed review of claims handling procedures and frequent investigation of possible fraudulent claims are all policies and procedures put in place to reduce the risk exposure of the Syndicate. The Syndicate further enforces a policy of actively managing and promptly pursuing claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the business. Inflation risk is mitigated by taking expected inflation into account when estimating insurance contract liabilities. However, 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. As claims develop, and the ultimate cost of claims becomes more certain, the relative level of margin should decrease. However, due to the uncertainty inherent in the estimation process, the overall claim provision may not always be in surplus. The tables below summarise the development pattern of the open years of account and run-off years of account at a gross and net level:

Gross insurance contract outstanding claims provision as at 31 December 2018 £'000:

Gross						
Underlying Pure Year	At end of underwriting year	One year later	Two years later	Three years later	Cumulative payments	Oustanding Reserves
2015	1,152	2,332	2,038	2,024	2,024	**5,522**
2016	16,552	44,893	50,016		22,482	**88,979**
2017	48,912	99,941			29,197	**119,656**
2018	47,584				3,826	**43,758**
ALL YOAs						**257,915**

Net insurance contract outstanding claims provision as at 31 December 2018 £'000:

Net						
Underlying Pure Year	At end of underwriting year	One year later	Two years later	Three years later	Cumulative payments	Oustanding Reserves
2015	1,152	2,190	1,904	1,889	1,889	**5,246**
2016	12,090	39,402	42,064		17,633	**75,923**
2017	34,942	68,805			17,874	**85,873**
2018	36,732				2,657	**34,075**
ALL YOAs						**201,117**

The sensitivity of the loss reserves has been tested by applying a 10% adverse movement in net ultimate loss ratios to the earned premiums booked. This would result in an increase in net technical provisions by £16.8m.

18. Risk management continued

d) Financial risk

1) Credit risk

Credit risk is the risk that one party to a financial obligation will cause a financial loss to the other party by failing to meet its obligation. HUL aims to mitigate credit risk in the following ways:

- A credit risk policy exists that sets out the approach to managing credit risk. Compliance with the policy is monitored via defined management tolerances. Any deviations are highlighted to the Finance and Operations Committee.
- The policy is reviewed regularly as part of the overall documentation review process and for changes to the risk profile.
- Dealing with counterparties with strong credit ratings along with appropriate due diligence as per HUL's compliance procedures.

The following tables provide information relating to the credit risk exposure of the syndicate at 31 December 2018. The assets are classified according to Standard & Poor's credit ratings of counterparties. The current credit risk ratings and those for the prior year are included as a comparative, where appropriate.

Credit risk exposure £'000

Credit Risk Ratings - As at December 2018	AAA	AA	A	BBB	BBB or less	Not rated	Total
Shares and other variable yield securities and unit		5,308	15,943				21,251
Debt securities	35,029	2,977	7,076	7,338	3,841		56,261
Participation in investment pools		190					190
Overseas deposits as investments	2,969	779	1,029	1,000	71	825	6,673
Reinsurer' share of claims outstanding	121	902	30,518			1,057	32,598
Reinsurer debtors	1	808	9,374			162	10,345
Cash at bank and in hand			10,540				10,540
Insurance Debtors						51,006	51,006
Total credit risk	**38,120**	**10,964**	**74,480**	**8,338**	**3,912**	**53,050**	**188,864**

Credit Risk Ratings - As at December 2017	AAA	AA	A	BBB	BBB or less	Not rated	Total
Shares and other variable yield securities and unit trusts		4,944	9,990				14,934
Overseas deposits as investments	4,497	1,252	668	939	158	398	7,912
Reinsurer' share of claims outstanding		826	24,178			1,058	26,062
Reinsurer debtors		17	3,710				3,727
Cash at bank and in hand			31,689				31,689
Insurance Debtors						46,952	46,952
Total credit risk	**4,497**	**7,039**	**70,235**	**939**	**158**	**48,408**	**131,276**

18. Risk management *continued*

The following table show the maximum exposure to credit risk (including an analysis of the financial assets exposed to credit risk) for the components of the statement of financial position.

Credit risk aging and impairment £'000

GBP - as at December 2018	Neither due nor impaired	Up to three months	Three to six months	Six months to one year	Greater than one year	Financial assets that have been impaired	Total
Shares and other variable yield securities and unit trusts	21,251						21,251
Debt securities	56,261						56,261
Participation in investment pools	190						190
Overseas deposits as investments	6,673						6,673
Reinsurer' share of claims outstanding	32,598						32,598
Reinsurer debtors	10,345						10,345
Cash at bank and in hand	10,540						10,540
Insurance debtors	45,989	2,965	1,352	528	171		51,005
Other debtors	80,101						80,101
Total credit risk	**263,948**	**2,965**	**1,352**	**528**	**171**		**268,964**

GBP - as at December 2017	Neither due nor impaired	Up to three months	Three to six months	Six months to one year	Greater than one year	Financial assets that have been impaired	Total
Shares and other variable yield securities and unit trusts	14,934						14,934
Overseas deposits as investments	7,912						7,912
Reinsurer' share of claims outstanding	26,062						26,062
Reinsurer debtors	3,727						3,727
Cash at bank and in hand	31,689						31,689
Insurance debtors	12,357	28,413	3,761	817	1,604		46,952
Other debtors	7,957						7,957
Total credit risk	**104,638**	**28,413**	**3,761**	**817**	**1,604**		**139,233**

Notes to the Accounts *continued*

18. Risk management *continued*

2) Liquidity Risk

Liquidity risk is the risk that the Syndicate will be unable to meet its financial obligations. In paying claims, there is a liquidity risk associated with timing differences between gross cash out-flows and expected reinsurance recoveries. HUL aims to mitigate liquidity risk in the following ways:

- A liquidity risk policy exists that sets out the approach to managing liquidity risk. Compliance with the policy is monitored via defined management tolerances. Any deviations are highlighted to the Finance and Operations Committee.
- The policy is reviewed regularly as part of the overall documentation review process and for changes to the risk profile.
- An overdraft facility has been set-up and is utilised to close any short-term funding gaps.

Due to all funds under the control of the managing agency being held in instant access cash and cash equivalent accounts there are no stated maturity profiles. The maturity profiles of gross claims outstanding and creditors are as below stated in £'000:

Liquidity risk - Maturity profiles - As at December 2018	No stated maturity	0-1 Year	1-3 Years	3-5 Years	>5 Years	Total
Claims outstanding	195	61,750	37,069	13,972	29,049	142,035
Creditors	30,452		35,981			66,433
Total credit risk	**30,647**	**61,750**	**73,050**	**13,972**	**29,049**	**208,468**

Liquidity risk - Maturity profiles - As at December 2017	No stated maturity	0-1 Year	1-3 Years	3-5 Years	>5 Years	Total
Claims outstanding		45,138	43,006	14,076	14,553	116,773
Creditors	44,637	67				44,704
Total credit risk	**44,637**	**45,205**	**43,006**	**14,076**	**14,553**	**161,477**

18. Risk management *continued*

3) Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk is made up of three types of risk:

a) Currency risk;

b) Interest rate risk; and

c) Equity price risk

HUL aims to mitigate market risk in the following ways:

A market risk policy exists that sets out the approach to managing market risk. Compliance with the policy is monitored via defined management tolerances. Any deviations are highlighted to the Finance and Operations Committee. The policy is reviewed regularly as part of the overall documentation review process and for changes to the risk profile.

Currency Risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Syndicate's functional currency is US Dollars, which makes up the largest percentage of its premium base, and its exposure to foreign exchange risk arises from transactions and assets held in other currencies. Primarily these are Sterling, Canadian, Australian Dollars and Euros. The following tables show the exposure of the financial assets and liabilities to foreign exchange risk for the various reporting years along with prior years for comparison. Sterling is the next largest currency in which the Syndicate's assets and liabilities are denominated, and also remains the presentational currency of the Syndicate. During the year ended 31 December 2018 the USD to Sterling rate of exchange averaged USD1.34:£1 (2017 average: USD1.29:£1) and the closing balance sheet rate was USD1.27:£1 (31 December 2017: USD1.35:£1). The correlation of these two currency rates of exchange are considered by management to give the greatest exposure to foreign exchange movement. In the year ended 31 December 2018 a foreign exchange gain of £1.5m was recorded in the non-technical account and a foreign exchange loss of £(3.5)m in Other Comprehensive Income. The Directors have addressed foreign exchange risk during the year by redenominating the recharge of expenses from HUL to the Syndicate in US Dollars to better match the premium base.

18. Risk management *continued*

Currency analysis (currency totals are converted to £'000)

At December 2018 - Currency Code	GBP	USD	EUR	CAD	AUD	Total
Financial investments		73,242		4,460		77,702
Overseas deposits	2,243	363		482	3,585	6,673
Reinsurer's share of technical provisions	8,871	62,892	4,041	418	726	76,948
Insurance and reinsurance receivables	7,455	63,191	4,449	685	878	76,658
Cash and cash equivalents	1,802	1,739	3,455	0	3,544	10,540
Other assets	2,904	15,170	1,303	544	522	20,443
Total Assets	**23,275**	**216,597**	**13,248**	**6,589**	**9,255**	**268,964**
Technical Provisions	(43,231)	(138,094)	(16,890)	(4,919)	(8,526)	(211,660)
Insurance and reinsurance payables	(2,128)	(53,862)	(2,016)	(87)	(13)	(58,106)
Other creditors		(14,003)	(112)			(14,115)
Total Liabilities	**(45,359)**	**(205,959)**	**(19,018)**	**(5,006)**	**(8,539)**	**(283,881)**

At December 2017 - Currency Code	GBP	USD	EUR	CAD	AUD	Total
Financial investments		10,497		4,437		14,934
Overseas deposits	957	269		616	6,070	7,912
Reinsurer's share of technical provisions	10,296	36,448	1,620	860	787	50,011
Insurance and reinsurance receivables	9,916	33,959	3,637	1,495	1,672	50,679
Cash and cash equivalents	10,984	14,047	5,709	59	890	31,689
Other assets	3,140	8,809	1,027	530	531	14,037
Total Assets	**35,293**	**104,029**	**11,993**	**7,997**	**9,950**	**169,262**
Technical Provisions	(46,458)	(96,523)	(16,449)	(4,878)	(13,150)	(177,458)
Insurance and reinsurance payables	(5,392)	(28,474)	(2,004)	(537)	(590)	(36,997)
Other creditors	(7,586)	(1)	(270)		(142)	(7,999)
Total Liabilities	**(59,436)**	**(124,998)**	**(18,723)**	**(5,415)**	**(13,882)**	**(222,454)**

18. Risk management *continued*

Interest Rate Risk:

The Investment portfolio largely consists of Fixed income holdings and Cash equivalents. The Fixed income portfolios were entered in to during the year ended 31 December 2018. The analysis below calculates the impact on the 2018 results for possible movements in interest rates:

	2018	*2017*
	£	*£*
Interest rate risk:		
Impact of 50 basis point increase on result	(93,781)	–
Impact of 50 basis point decrease on result	93,781	–
Impact of 50 basis point increase on member's balances	(93,781)	–
Impact of 50 basis point decrease on member's balances	93,781	–

Equity Price Risk:

The syndicate does not hold listed equities or any investment assets that would be subject to equity price risk.