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Syndicate 4000

Annual Report

Year ended
31 December 2019

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SYNDICATE 4000

DIRECTORS AND ADVISERS

Managing Agent

Hamilton Managing Agency Limited (formerly Pembroke Managing Agency Limited)

Registered Office

Level 3, 8 Fenchurch Place, London, EC3M 4AJ

Registered Number

05832065

Directors

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

Company Secretary

D. Ford

Syndicate

Active Underwriter

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

Bankers

Barclays plc
Citibank N.A.
HSBC
Royal Bank of Canada

Investment Manager

Conning Asset Management Limited
Liberty Mutual Group Asset Management Inc.

Auditor

Ernst & Young LLP, 25 Churchill Place, London, E14 5EY

SYNDICATE 4000

MANAGING AGENT'S REPORT

The Directors of Hamilton Managing Agency Limited ("HMA") present the Managing Agent's Report for Syndicate 4000 ("the Syndicate") for the year ended 31 December 2019.

Principal Activity

The principal activity of the Syndicate continues to be the underwriting of general insurance and reinsurance business at Lloyd's.

The Syndicate's allocated capacity for the 2019 year of account was £236.0m (2018: £398.0 m). The capacity for the 2020 year of account is £327.0m. Capital to support the underwriting of the Syndicate is provided by entities that are ultimately owned by Liberty Mutual Holding Company Inc. (collectively with its subsidiaries, "the Liberty Mutual Group") and Hamilton Insurance Group, Ltd (collectively with its subsidiaries, "the Hamilton Group"):

- Liberty Corporate Capital (Two) Ltd ("LCC2") (formerly Ironshore Corporate Capital Limited) for the 2018 and prior years of account (ultimately owned by Liberty Mutual Holding Company Inc.).
- Ironshore CC (Three) Limited ("ICC3") for the 2019 year of account (purchased and ultimately owned by Hamilton Insurance Group, Ltd from 20 August 2019).
- Hamilton Corporate Member Limited ("HCM") for the 2020 year of account (ultimately owned by Hamilton Insurance Group, Ltd).

On 20 August 2019, the Hamilton Group acquired HMA and ICC3 from the Liberty Mutual Group. HMA also manages Syndicate 2014, Syndicate 6125, Syndicate 1947 and also Syndicate 3334 (from 1 January 2020). For the 2018 and 2019 years of account, LCC2 has participations on Syndicate 2014. Otherwise, capital to support the underwriting of these syndicates is provided by third parties that are unrelated to the Liberty Mutual Group and the Hamilton Group. Transactions between these syndicates and entities within the Liberty Mutual Group are conducted on a normal commercial basis.

Business of the Syndicate

The Syndicate continues to be a provider of specialist commercial insurance and reinsurance products and aims to write a low volatility portfolio of niche property and casualty classes of business. The portfolio is built around business which has a high technical barrier to entry. The underwriting risk selection process is supported by robust rating models. During the 2019 financial year gross written premium by product area was as follows:

	2019 **£000**	**2018** **£000**
Direct:		
- Casualty	98,010	175,893
- Specialty	123,067	131,609
- Property	26,292	23,720
Reinsurance	36,431	58,056
Run-off Lines	17,840	33,683
Total	301,640	422,961

Further details of the product areas are provided below.

<u>Direct – Casualty</u>

This product area consists of Professional Lines & Financial Institutions, Cyber and Mergers & Acquisitions ("M&A") business.

The Professional Lines and Financial Institutions accounts are diverse portfolios, designed to minimise economic correlation between the two accounts. The accounts comprise crime, professional indemnity, directors' & officers' liability and medical malpractice products. The Financial Institutions account targets institutional facing business rather than retail exposure.

The Syndicate established its Cyber team in 2019, the division began underwriting in July and will seek to develop a diverse portfolio of exposure by geography and sector, predominantly on an excess basis as scale is built.

With effect from 1 January 2019, the Syndicate's M&A underwriting team transferred to Liberty and ceased to place business through Syndicate 4000. The Syndicate continues to participate on Liberty's M&A Consortia. The Hamilton Group are planning to hire a new M&A team to replace this business. The business includes warranties and indemnities for parties to mergers & acquisitions, as well as tax specific covers. The book is geographically diversified, with the majority of business emanating from the UK, Western Europe, Australia and the US.

Direct – Speciality

This product area predominantly consists of Accident and Health ("A&H"), Political Risks, Political Violence and Marine/Energy classes.

The A&H product area includes individual and group accidental death and disability, worldwide excess of loss, medical expenses and kidnap and ransom cover.

The Political Risks / Political Violence product area includes cover for confiscation and contract frustration, trade credit and war & terrorism. The account is written on a worldwide basis.

Marine/Energy includes two elements: Specie & Fine Art / High Value Cargo (typically written with lead positions) and Marine Liability. The Marine Liability book includes both traditional marine liability and energy liability (predominantly offshore). This product area includes an international onshore & offshore energy book.

Direct - Property

The Property book has global exposures, written on both a Direct and Facultative basis as well as through a specialist Property Binders division. The underwriting strategy of the book is to minimise catastrophe exposure. Risks written include construction sites, factories (particularly electronic and food manufacturers) and public buildings.

Reinsurance

This includes the Agriculture book which is a diversified portfolio of risks, accepted by way of both proportional and non-proportional treaties. Products include crop, livestock, bloodstock, forestry and aquaculture. In addition to underwriters located in the UK, the book is serviced by Hamilton Group owned coverholders based in local markets.

The Reinsurance product area also includes the Property Reinsurance account which relates predominantly to underwriting by Patria Re on behalf of Syndicate 6125, with Syndicate 4000 retaining 10% of exposures.

Run-off Lines

Lines in run-off include Marine Re, Cargo, Product Recall and certain casualty classes.

Strategic Partnerships Through Special Purpose Arrangements ("SPAs")

The HMA Strategic Partnership Team forms and develops SPAs and syndicates supported by third party capital.

For the 2012 and 2013 years of account, Syndicate 6110 was an SPA managed by HMA and hosted by Syndicate 4000. This was succeeded by a standalone successor syndicate, Syndicate 2014, from the 2014 year of account onwards.

For the 2016 year of account, HMA entered into a strategic partnership agreement with Patria Re S.A. ("Patria") which resulted in the formation of an SPA, Patria Syndicate 6125 which is a wholly aligned Special Purpose Arrangement. The capital to support underwriting is provided by Patria Corporate Member Limited ("PCM"). Patria and PCM are wholly owned subsidiaries of Peña Verde S.A.B. ("Peña Verde"). Peña Verde is a Mexican domiciled insurance and reinsurance group with an established presence in Central and South America. As is the case with all SPAs, Patria Syndicate 6125 sources its underwriting by way of quota share reinsurance cessions from its host, which is Syndicate 4000.

In addition to the Property Treaty book of business wherein Syndicate 4000 cedes 90% of the book to Syndicate 6125, Peña Verde and Syndicate 4000 have also entered into an exposure exchange agreement covering a selection of short tail lines of business.

The forming and profitable growth of further underwriting businesses for third party capital providers, and the development of mutually beneficial commercial relationships through strategic partnerships, is a focus for the future development of Syndicate 4000.

Review of Financial Performance

The Syndicate's key financial indicators are as follows:

	2019 £000	2018 £000
Syndicate capacity	236,000	398,000
Gross written premium	301,640	422,961
(Loss)/profit for the financial year	(3,018)	23,855
Total comprehensive income for the financial year	4,612	22,065
Combined ratio	104.9%	94.9%
Investments, cash and deposits	400,009	461,591

The Syndicate reports a loss for the year of £3.0m, reflecting higher than expected claims activity predominantly in the second half of the year.

Gross Written Premiums

The Syndicate reports gross written premiums for the financial year of £301.6m (2018: £423.0m), representing a decrease of 28.7% (2018: 2.1%) on the prior year. Of this reduction, £52.7m relates to the transfer of the M&A team to Liberty and £34.3m to the decision to cease certain understanding lines of businesses.

Claims Incurred

The increase in the net loss ratio to 60.8% (2018: 51.8%) reflects a number of severe weather-related crop losses (from Q4 2019) across China, the United States of America and India which significantly impacted our Agriculture treaty book of business. The Personal Accident and Financial Institutions accounts also suffered adverse claims activity in the year, partially offset by a benign claims experience on M&A, Property Binders and Political Risks.

Investment Return

Investment return in 2019 was £9.4m (2018: £5.9m), reflecting realised gains in the year.

Net Operating Expenses

Net operating expenses (note 5) in 2019 were £115.6m (2018: £147.3m), reflecting a reduced capacity and headcount (with particular reference to the transfer of the M&A team to the Liberty Mutual Group).

Balance Sheet

Syndicate assets have decreased by £126.4m to £864.9m (2018: £991.3m) and the total liabilities have decreased by £94.3m to £912.1m (2018: £1,006.4m) as a result of a lower level of business activity.

Future Prospects

Trading Environment

As a result of the acquisition of HMA by the Hamilton Group, Syndicate 3334 has been put into run-off and relevant business has been transferred to and renewed by Syndicate 4000 for the 2020 year of account.

The rating environment outlook is more positive for 2020 and it is expected the Syndicate will see a risk adjusted rate increase of 5%.

The higher level of stamp capacity for 2020 reflects the impact of the combination with legacy Syndicate 3334 business and growth in specific lines, notably Cyber.

Strategy

The Syndicate has a sustained track record of disciplined and profitable growth. The 2017 year of account is closing at a profit of £12.2m. With the exception of 2015 (which was impacted by foreign exchange losses), earlier underwriting years managed by HMA closed profitably.

The profitability of the Syndicate's business through the soft market validates the approach to managing the Syndicate which is characterised by careful risk selection, opportunistic organic growth of existing lines of business where conditions permit and the carefully managed introduction of new products and high calibre underwriting teams.

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

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

Research and Development

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

Staff Matters

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

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

As of 1 December 2019, all HMA UK staff were transferred to Hamilton UK Service Company Limited and HMA entered into a service agreement with this entity for the provision of services in relation to its role as managing agent, including for Syndicate 4000. HMA and Hamilton UK Service Company Limited are both fully owned subsidiaries of Hamilton UK Holdings Limited.

Environmental Matters

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

Principal Risks and Uncertainties

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

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

Directors and Officers Serving During the Year

The Directors who served during the year ended 31 December 2019 and up to the date of this report (and the current Company Secretary) are detailed on page 4.

Annual General Meeting

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

Auditor

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

Disclosure of Information to the Auditor

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

Board Approval

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

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

SYNDICATE 4000

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SYNDICATE 4000

Opinion

We have audited the syndicate annual accounts of Syndicate 4000 ('the syndicate') for the year ended 31 December 2019 which comprise the the Statement of Comprehensive Income, the Statement of Members' Balances, the Statement of Financial Position, the Statement of Cash Flows and the related notes 1 to 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 2019 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

Basis for Opinion

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

Conclusions Relating to Going Concern

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

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

Other Information

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

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

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

We have nothing to report in this regard.

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

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

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

Matters on which we are Required to Report by Exception

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

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

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

Responsibilities of the Directors of the Managing Agent

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

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

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

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

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these syndicate annual accounts.

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

Use of our Report

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

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

SYNDICATE 4000

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 £000	2018 £000
TECHNICAL ACCOUNT – GENERAL BUSINESS			
Earned premiums, net of reinsurance			
Gross premiums written	3	301,640	422,961
Outward reinsurance premiums		(84,794)	(80,595)
Net premiums written		216,846	342,366
Change in the provision for unearned premiums			
Gross amount		48,087	(2,774)
Reinsurers' share		(2,694)	2,358
Change in the net provision for unearned premiums		45,393	(416)
Earned premiums, net of reinsurance		262,239	341,950
Allocated investment return transferred from the non-technical account		9,430	5,873
Claims incurred, net of reinsurance			
Claims paid			
Gross amount		(237,543)	(175,516)
Reinsurers' share		75,631	41,824
Net claims paid		(161,912)	(133,692)
Change in the provision for claims			
Gross amount		6,090	(76,725)
Reinsurers' share		(3,640)	33,385
Change in the net provision for claims		2,450	(43,340)
Claims incurred, net of reinsurance		(159,462)	(177,032)
Net operating expenses	5	(115,578)	(147,318)
Balance on the technical account for general business		(3,371)	23,473
NON-TECHNICAL ACCOUNT			
Investment income	9	7,618	7,170
Realised gains/(losses) on investments	9	2,245	(907)
Investment expenses and charges	9	(429)	(390)
Unrealised losses on investments	9	(4)	-
Allocated investment return transferred to the technical account	9	(9,430)	(5,873)
Foreign exchange gains		353	382
(Loss)/profit for the financial year		(3,018)	23,855
Other comprehensive income – currency translation differences		1,771	(1,096)
Fair value losses on available for sale investments		5,859	(694)
Total comprehensive income for the financial year		4,612	22,065

All the amounts above are in respect of continuing operations.

SYNDICATE 4000

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

	Profit and loss account £000	**Available for sale reserve £000**	**Total members' balances £000**
Balance at 1 January 2019	(14,804)	(303)	(15,107)
Underlying loss for the financial year	(5,249)	-	(5,249)
Fair value losses realised on available for sale	2,239	(2,239)	-
Other movements	1,740	491	2,231
(Loss)/profit for the financial year	(1,270)	(1,748)	(3,018)
Unrealised fair value gains on available for sale investments	-	5,859	5,859
Fair value currency translation differences	1,771	-	1,771
Payments of profits to members' personal reserve funds	(36,697)	-	(36,697)
Balance at 31 December 2019	(51,000)	3,808	(47,192)

	Profit and loss account £000	**Available for sale reserve £000**	**Total members' balances £000**
Balance at 1 January 2018	(45,364)	(1,210)	(46,574)
Underlying profit for the financial year	24,762	-	24,762
Fair value losses realised on available for sale investments	(907)	907	-
Profit for the financial year	23,855	907	24,762
Fair value currency translation differences	(2,697)	-	(2,697)
Non-standard personal expenses	(237)	-	(237)
Received from members in relation to deficits	9,639	-	9,639
Balance at 31 December 2018	(14,804)	(303)	(15,107)

SYNDICATE 4000

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019

	Note	2019 £000	2018 £000
ASSETS			
Financial investments	10	304,442	377,028
Reinsurers' share of technical provisions			
Provision for unearned premiums	15	39,148	42,776
Claims outstanding	15	133,540	140,971
		172,688	183,747
Debtors due within one year			
Debtors arising out of direct insurance operations – intermediaries	11	128,941	129,622
Debtors arising out of reinsurance operations	12	69,766	86,718
Other debtors – due from other syndicates	13	32,519	54,383
		231,226	270,723
Debtors due after one year			
Debtors arising out of direct insurance operations – intermediaries	11	-	69
Debtors arising out of reinsurance operations	12	5	15
Other debtors – due from other syndicates	13	4,627	6,875
		4,632	6,959
Other assets			
Cash at bank and in hand		30,208	27,614
Other assets	10	65,359	56,949
		95,567	84,563
Prepayments and accrued income			
Deferred acquisition costs	14	54,201	66,294
Other prepayments & accrued income		2,117	2,001
		56,318	68,295
TOTAL ASSETS		864,873	991,315
MEMBERS' BALANCES AND LIABILITIES			
Members' balances		(47,192)	(15,107)
Technical provisions			
Provision for unearned premiums	15	211,342	266,219
Claims outstanding	15	597,739	618,131
		809,081	884,350
Creditors due within one year			
Creditors arising out of direct insurance operations – intermediaries		1,004	2,265
Creditors arising out of reinsurance operations		88,011	94,950
Other creditors		3,996	18,269
		93,011	115,484
Creditors due after one year			
Creditors arising out of direct insurance operations – intermediaries		142	-
Creditors arising out of reinsurance operations		4,352	-
		4,494	
Accruals and deferred income		5,479	6,588
TOTAL MEMBERS' BALANCES AND LIABILITIES		864,873	991,315

The Syndicate Annual Accounts on pages 13 to 37 were approved by the Board of Hamilton Managing Agency Limited on 3 March 2020 and were signed on its behalf by:

R. S. Vetch
Chief Financial Officer

SYNDICATE 4000

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	**2019** **£000**	**2018** **£000**
Cash flow from operating activities			
Operating result		(3,018)	23,855
Adjustments:			
(Decrease)/increase in gross technical provisions		(54,180)	79,499
Decrease/(increase) in reinsurers' share of gross technical provisions		15,482	(37,210)
Decrease/(increase) in debtors		35,588	(47,932)
(Decrease)/increase in creditors		(15,418)	30,352
Movement in other assets and liabilities		(8,964)	(7,942)
Investment return		(9,430)	(5,873)
Other		(281)	293
Net cash (outflow)/inflow from operating activities		(40,221)	35,042
Cash flows from investing activities			
Purchase of equity and debt instruments		(179,540)	(151,551)
Sale of equity and debt instruments		191,226	128,998
Investment income received		9,429	6,814
Net cash inflow/(outflow) from investing activities		21,115	(15,739)
Cash flows from financing activities			
Profit distributed to members (2016 year of account)		(31,962)	-
Cash call from members (2015 year of account)		-	5,367
Other		(5,016)	(116)
Net cash (outflow)/inflow from financing activities		(36,978)	5,251
Net (decrease)/increase in cash and cash equivalents		(56,083)	24,554
Cash and cash equivalents at 1 January		107,009	79,324
Foreign exchange on cash and cash equivalents		(1,013)	3,131
Cash and cash equivalents at 31 December		49,913	107,009
Comprises:			
Cash at bank and in hand		30,208	27,614
Short term deposits with financial institutions	10	19,705	79,395
Cash and cash equivalents at 31 December		49,913	107,009

1. Statement of Accounting Policies

General Information

The Syndicate's corporate members are detailed on page 5. The Syndicate underwrites insurance and reinsurance business in the London market at the Society of Lloyd's on behalf of its corporate members. The registered address of the managing agent is Level 3, 8 Fenchurch Place, London, EC3M 4AJ.

Compliance with Accounting Standards

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

Basis of Preparation

The financial statements have been prepared on a historical cost basis, except for certain financial instruments which are measured at fair value.

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

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.

Going Concern Basis

These financial statements are prepared on a going concern basis.

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

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

The Syndicate has considerable financial resources together with long term relationships with a number of brokers and policyholders across different classes of business and geographical areas. As a consequence, the Directors believe that the Syndicate is well placed to manage its business risks successfully despite the current uncertain economic outlook.

The Directors have a reasonable expectation that the Syndicate has adequate resources including the Funds at Lloyd's of the members supporting the Syndicate (as detailed in note 17) to continue in operational existence for the foreseeable future.

Use of Judgements and Estimates

In preparing these financial statements, the Directors of the managing agent have made judgements, estimates and assumptions that affect the application of the Syndicate's accounting policies and the reported amounts of assets, liabilities, income and expenses.

1. Statement of Accounting Policies (continued)

Use of Judgements and Estimates (continued)

Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Provision for Claims Outstanding

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

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

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

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

Estimated Premium Income

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

Basis of Accounting

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

Premiums Written

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

Unearned Premiums

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

Reinsurance Premiums Ceded

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

1. Statement of Accounting Policies (continued)

Basis of Accounting (continued)

Acquisition Costs

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

Claims Provisions and Related Recoveries

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

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

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

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

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

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

Unexpired Risks Provision

A provision for unexpired risks is made where claims and related expenses arising after the end of the financial period in respect of contracts concluded before that date are expected to exceed the unearned premiums and premiums receivable under these contracts, after the deduction of any acquisition cost deferred. The provision for unexpired risks is calculated by reference to classes of business which are managed together, after taking into account relevant investment return. As at 31 December 2019 and 31 December 2018, the Syndicate did not have an unexpired risk provision.

Foreign Currencies

The Syndicate's functional currency is US dollars. The financial statements are presented in pounds sterling, which is the Syndicate's reporting currency, in order for them to be consistent with returns provided to Lloyd's. Transactions in pounds sterling, Canadian dollars, Australian dollars and euros are translated at the average rates of exchange for the period. Transactions denominated in other foreign currencies are included at the rate of exchange ruling at the date the transaction is processed.

1. Statement of accounting policies (continued)

Basis of Accounting (continued)

Foreign Currencies (continued)

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

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

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

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

Financial Investments

As permitted by FRS 102, the Syndicate has elected to apply the recognition and measurement provisions of IAS 39 – Financial Instruments (as adopted for use in the EU) to account for all of its financial instruments.

The Syndicate classifies its financial investments as either financial assets at fair value through profit or loss (“FVPL”) or available for sale (“AFS”), depending on the purpose for which the investments were acquired or originated. Where the intention is to only dispose of investment assets if required for liquidity purposes, the Syndicate classifies these assets as AFS. The Syndicate determines the classification of its financial assets at initial recognition. Financial assets are initially recognised at fair value plus, in the case of instruments not at FVPL, directly attributable transaction costs.

FVPL assets comprise two sub categories: financial assets held for trading and those designated as FVPL at inception. Investments typically bought with the intention to sell in the near future are classified as held for trading. For investments designated as FVPL, the following criteria must be met:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on a different basis; or
- The assets and liabilities are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

These investments are initially recorded at fair value. Subsequent to initial recognition, these investments are re-measured at fair value at each reporting date. Fair value adjustments and realised gains and losses are recognised in the income statement.

AFS financial assets are non-derivative financial assets that are designated as AFS. These investments are initially recorded at fair value. Subsequent to initial recognition, these investments are re-measured at fair value at each reporting date. Fair value gains and losses are reported in Other Comprehensive Income as a separate component of members’ balances until the investment is derecognised or the investment is determined to be impaired. On derecognition or impairment, the cumulative fair value gains and losses previously reported through the statement of Other Comprehensive Income is transferred to the income statement.

Cash and Cash Equivalents

Cash and cash equivalents in the statement of financial position comprise cash at bank 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 equivalents as defined above, where applicable net of outstanding bank overdrafts.

1. Statement of accounting policies (continued)

Basis of Accounting (continued)

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 recognised in the income statement. Investment return is initially recorded in the non-technical account. A transfer is made from the non-technical account to the general business technical account. Investment return has been wholly allocated to the technical account as all investments are held to support underwriting liabilities.

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

Unrealised and realised gains and losses in financial investments are recognised based on the appropriate classification of financial investments and are covered under the accounting policy for financial investments.

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 is 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 members' balances.

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

Pension Costs

The Hamilton Group operates a defined contribution scheme for its UK staff. Pension contributions relating to syndicate staff are charged to the Syndicate and included within net operating expenses.

Profit Commission

Profit commission payable to Lloyd's coverholders or producing brokers has been provided for on all years of account and recognised within acquisition costs.

Insurance Receivables

Insurance receivables are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. 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 derecognition criteria for financial assets have been met.

1. Statement of accounting policies (continued)

Basis of accounting (continued)

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. Insurance liabilities are derecognised when the obligation under the liability is settled, cancelled or expired.

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.

2. Risk Management

Risk Framework

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

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

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

Insurance Risk - Underwriting

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

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

2. Risk Management (continued)

Insurance Risk – Underwriting (continued)

Principal Risks

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

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

Reinsurance

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

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

Underwriting Committee

The Syndicate organises underwriting through product areas. Each underwriting unit reports to the Underwriting Committee and ultimately the HMA Board. This control process ensures that several layers of review occur for underwriting risks, with the focus being on the main components of risk, notably pricing, loss ratio selection, reserving, variations in experience, cycle management, reinsurance protection and catastrophe modelling.

Underwriting authorities, underwriting peer reviews of all risks, independent review procedures, and the audit and review of delegated arrangements all contribute to the strength of the underwriting control environment.

HMA records and monitors individual risk exposures to ensure they remain within the policies and guidelines set.

Diversification

Risks usually cover twelve months' duration, with longer duration risks of up to ten years written in selected accounts such as Political Risks and Mergers & Acquisitions. Risks deliberately emanate from a diverse range of sources. The variability of risks is improved by careful selection and implementation of underwriting strategies, which are designed to ensure that risks are diversified in terms of type of risk and level of insured benefits. This is largely achieved through diversification across industry sectors and geographical segmentation.

Claims Management

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

2. Risk Management (continued)

Insurance Risk – Underwriting (continued)

Claims Management (continued)

The following table gives an indication of the likely quantum and scale of the largest (on a gross basis) Realistic Disaster Scenarios estimated for 2019 (highest gross event loss for year ended 31 December 2018 was Terrorism Attack – Rockefeller Center at £92,841,000).

Realistic Disaster Scenarios	**Gross event loss £000**	**Net event loss £000**
Terrorism Attack - Rockefeller Center	136,029	10,685
Political Risks - Oil Price Collapse	71,168	63,428
Collapse of Entity after Merger	53,311	34,030

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

Insurance Risk – Reserving

Principal Risk

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

Actuarial best estimate reserves are intended to be true best estimates, i.e. estimates of expected value claims reserves. These are the basis for internal reporting and the derivation of expected loss ratios for business planning.

The following table illustrates the sensitivity of the financial year results (before managing agent's profit commission) to changes in the net loss ratio (negative movements reflect a decrease in results / members' balances).

Impact on result and members' balances (change in net reserves)	**2019 £000**	**2018 £000**
Net loss ratio - increase of 5%	(13,112)	(17,098)
Net loss ratio - increase of 10%	(26,224)	(34,195)

Mitigation

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

2. Risk Management (continued)

Regulatory Risk

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

Capital Framework at Lloyd's

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

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

Lloyd's Capital Setting Process

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

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

Provision of Capital by Members

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

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

2. Risk Management (continued)

Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation. The key aspect of credit risk is the risk of default by a reinsurer, insurance intermediary or debt holder. The table below provides information regarding the credit risk exposure of the Syndicate at 31 December 2019 by classifying assets according to Standard & Poor's credit ratings of the counterparties for assets not yet due. AAA is the highest possible rating. Assets that fall outside the range of AAA to BBB and below are classified as speculative grade and have not been rated.

As at 31 December 2019	AAA	AA	A	BBB and below	Not rated	Total
	£000	£000	£000	£000	£000	£000
Variable yield securities	10,115	-	9,590	-	1,044	20,749
Debt securities	60,586	104,744	84,491	32,727	1,145	283,693
Overseas deposits	-	-	65,359	-	-	65,359
Reinsurers' share of outstanding claims	-	1,905	130,729	-	906	133,540
Reinsurance debtors not yet past due	-	(24)	57,737	-	481	58,194
Cash at bank and in hand	-	393	29,815	-	-	30,208
Total	70,701	107,018	377,721	32,727	3,576	591,743

As at 31 December 2018	AAA	AA	A	BBB and below	Not rated	Total
	£000	£000	£000	£000	£000	£000
Variable yield securities	36,905	-	42,490	-	-	79,395
Debt securities	63,635	99,249	88,188	46,445	116	297,633
Overseas deposits	-	-	56,949	-	-	56,949
Reinsurers' share of outstanding claims	-	5,906	122,870	-	12,195	140,971
Reinsurance debtors not yet past due	-	1,924	25,476	-	1,484	28,884
Cash at bank and in hand	-	24,010	3,604	-	-	27,614
Total	100,540	131,089	339,577	46,445	13,795	631,446

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

Broker credit risk limits are determined depending on the grading of the relevant broker and exposures monitored against limits on a monthly basis. Investment credit risk is managed through investment management guidelines and quarterly compliance reports.

2. Risk Management (continued)

Credit Risk (continued)

The tables below show the maximum exposure to credit risk (including an analysis of financial assets exposed to credit risk) for the components of the statement of financial position. The maximum exposure is shown gross, before the effect of any mitigation arrangements.

As at 31 December 2019	Not yet due £000	Past due by three months £000	Past due three to six months £000	Past due over six months £000	Greater than one year £000	Total £000
Variable yield securities	20,749	-	-	-	-	20,749
Debt securities	283,693	-	-	-	-	283,693
Overseas deposits	65,359	-	-	-	-	65,359
Reinsurers share of outstanding claims	133,540	-	-	-	-	133,540
Reinsurance debtors	58,194	5,637	2,836	-	-	66,667
Cash at bank and in hand	30,208	-	-	-	-	30,208
Insurance debtors	73,565	8,751	16,886	17,618	12,119	128,939
Other debtors	135,718	-	-	-	-	135,718
Total	801,026	14,388	19,722	17,618	12,119	864,873

As at 31 December 2018	Not yet due £000	Past due by three months £000	Past due three to six months £000	Past due over six months £000	Greater than one year £000	Total £000
Variable yield securities	79,395	-	-	-	-	79,395
Debt securities	297,633	-	-	-	-	297,633
Overseas deposits	56,949	-	-	-	-	56,949
Reinsurers share of outstanding claims	140,971	-	-	-	-	140,971
Reinsurance debtors	28,884	12,276	1,710	-	-	42,870
Cash at bank and in hand	27,614	-	-	-	-	27,614
Insurance debtors	81,078	9,336	12,727	22,905	3,645	129,691
Other debtors	199,756	3,157	4,303	7,744	1,232	216,192
Total	912,280	24,769	18,740	30,649	4,877	991,315

As at the balance sheet date, all financial assets of the Syndicate are unimpaired (2018: all unimpaired).

Liquidity Risk

Liquidity risk is the risk that the Syndicate will encounter difficulty in meeting obligations as they fall due for settlement. In respect of catastrophic events there is also a liquidity risk associated with the timing differences between gross cash outflows and expected reinsurance recoveries.

The Syndicate is subject to calls on cash resources, mainly in respect of claims on insurance business, on a daily basis. HMA operates and maintains procedures designed to ensure that cash is available to settle liabilities and other obligations when due without excessive cost to the business.

The procedures set limits for cash required to meet expected cash flows. Contingency arrangements exist to meet liquidity requirements in extreme circumstances.

2. Risk Management (continued)

Liquidity Risk (continued)

The table below summarises the maturity profile of the Syndicate's financial liabilities based on remaining undiscounted contractual obligations, including interest payable, and outstanding claim liabilities based on the estimated timing of claim payments resulting from recognised insurance liabilities. Repayments which are subject to notice are treated as if notice were to be given immediately.

As at 31 December 2019	Up to one year £000	One to three years £000	Three to five years £000	Greater than five years £000	Total £000
Claims outstanding	204,485	245,823	93,013	54,418	597,739
Creditors	93,011	4,494	-	-	97,505
Total	297,496	250,317	93,013	54,418	695,244

As at 31 December 2018	Up to one year £000	One to three years £000	Three to five years £000	Greater than five years £000	Total £000
Claims outstanding	196,677	344,598	52,009	24,847	618,131
Creditors	115,484	-	-	-	115,484
Total	312,161	344,598	52,009	24,847	733,615

Market Risk

Interest Rate Risk

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Floating rate instruments expose the Syndicate to cash flow interest risk, whereas fixed rate instruments expose the Syndicate to market value interest risk. The Syndicate has no significant concentration of interest rate risk. Insurance liabilities are not discounted and therefore not exposed to interest rate risk.

The analysis below is performed for reasonably possible movements in interest rates with all other variables held constant, showing the impact on profit and members' balance of the effects of changes in interest rates on fixed rate financial assets and variable rate financial assets.

Interest rate risk	2019 £000	2018 £000
Impact of 50 basis point increase on result	(3,806)	(4,042)
Impact of 50 basis point decrease on result	4,099	4,180
Impact of 50 basis point increase net assets	(3,806)	(4,042)
Impact of 50 basis point decrease net assets	4,099	4,180

Currency Risk

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

The Syndicate writes a significant proportion of insurance business in currencies other than US dollars, which creates an exposure to currency risk. The Syndicate seeks to manage this exposure by matching foreign currency assets and liabilities.

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

2. Risk Management (continued)

Market Risk (continued)

Currency Risk (continued)

As at 31 December 2019	GBP £000	USD £000	EUR £000	CAD £000	AUD £000	Total £000
Financial investments	46,519	166,167	30,441	61,316	-	304,443
Reinsurers' share of technical provisions	45,580	115,959	7,891	1,150	2,108	172,688
Insurance assets	49,957	134,500	3,472	6,913	3,869	198,711
Cash and overseas deposits	46,496	7,071	5,606	12,895	23,499	95,567
Other assets	23,857	49,008	11,724	6,595	2,280	93,464
Total assets	212,408	472,705	59,134	88,869	31,756	864,873
Technical provisions	(202,923)	(475,011)	(53,713)	(55,726)	(21,708)	(809,081)
Insurance liabilities	(25,742)	(57,961)	(5,018)	(3,575)	(1,213)	(93,509)
Other creditors	(3,772)	(4,943)	(397)	(305)	(58)	(9,475)
Total liabilities	(232,437)	(537,915)	(59,128)	(59,606)	(22,979)	(912,065)
Currency (deficiency)/surplus	(20,029)	(65,210)	6	29,264	8,778	(47,191)

As at 31 December 2018	GBP £000	USD £000	EUR £000	CAD £000	AUD £000	Total £000
Financial investments	59,931	221,266	31,483	64,348	-	377,028
Reinsurers' share of technical provisions	60,269	108,786	10,686	2,101	1,905	183,747
Insurance assets	56,563	138,001	7,298	8,097	6,465	216,424
Cash and overseas deposits	22,312	7,993	16,241	13,589	24,428	84,563
Other assets	31,236	80,776	10,345	5,307	1,889	129,553
Total assets	230,311	556,822	76,053	93,442	34,687	991,315
Technical provisions	(219,083)	(492,360)	(80,596)	(63,983)	(28,328)	(884,350)
Insurance liabilities	(21,594)	(61,702)	(8,567)	(3,528)	(1,824)	(97,215)
Other creditors	(13,950)	(9,141)	(815)	(871)	(80)	(24,857)
Total liabilities	(254,627)	(563,203)	(89,978)	(68,382)	(30,232)	(1,006,422)
Currency (deficiency)/surplus	(24,316)	(6,381)	(13,925)	25,060	4,455	(15,107)

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

	2019 £000	2018 £000
Sterling weakens		
10% against other currencies	(3,018)	1,103
20% against other currencies	(6,791)	2,481
Sterling strengthens		
10% against other currencies	2,469	(902)
20% against other currencies	4,527	(1,654)

Operational Risk

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

3. Segmental Analysis

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

2019	**Gross premiums written £000**	**Gross premiums earned £000**	**Gross claims incurred £000**	**Gross operating expenses £000**	**Reinsurance balance £000**	**Total £000**
Direct insurance:						
Accident & health	34,973	34,790	(27,511)	(16,835)	3,477	(6,079)
Marine aviation and transport	8,374	14,298	(16,359)	(5,013)	1,703	(5,371)
Fire and other damage to property	58,713	59,910	(37,060)	(24,794)	(4,317)	(6,261)
Third party liability	96,274	135,648	(71,777)	(40,869)	(6,256)	16,746
Miscellaneous	30,934	36,425	(27,020)	(16,193)	2,589	(4,199)
	229,268	281,071	(179,727)	(103,704)	(2,804)	(5,164)
Reinsurance	72,372	68,656	(51,728)	(18,882)	(5,683)	(7,637)
Total	301,640	349,727	(231,455)	(122,586)	(8,487)	(12,801)

2018	**Gross premiums written £000**	**Gross premiums earned £000**	**Gross claims incurred £000**	**Gross Operating Expenses £000**	**Reinsurance balance £000**	**Total £000**
Direct insurance:						
Accident & health	39,400	36,973	(22,382)	(20,810)	(566)	(6,785)
Marine aviation and transport	21,688	22,176	(21,970)	(7,254)	4,169	(2,879)
Fire and other damage to property	64,720	67,433	(45,279)	(26,982)	(4,901)	(9,729)
Third party liability	162,917	159,422	(95,635)	(61,282)	3,708	6,213
Miscellaneous	31,553	40,138	(5,713)	(10,856)	(386)	23,183
	320,278	326,142	(190,979)	(127,184)	2,024	10,003
Reinsurance	102,683	94,045	(61,262)	(27,756)	2,570	7,597
Total	422,961	420,187	(252,241)	(154,940)	4,594	17,600

Commissions on direct insurance gross premiums during 2019 were £66.7m (2018: £83.9m).

The reinsurance balance is the aggregate total of all those items in the technical account which relate to outwards reinsurance transactions including items recorded as reinsurance commission and profit participations.

All premiums were concluded in the UK.

The geographical analysis of gross premiums written by destination is as follows:

	2019 £000	**2018 £000**
UK, Channel Islands and Isle of Man	87,612	99,314
Rest of Europe	48,202	49,305
US	119,268	151,061
Other	46,558	123,281
Total	301,640	422,961

4. Claims Incurred, Net of Reinsurance

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

Claims incurred, net of reinsurance, include favourable prior year development of £15.2m (2018 favourable development: £42.8m). Prior year claims development is analysed by line of business in the table below.

	2019 £000	**2018 £000**
Accident & health	(4,076)	(2,298)
Marine aviation and transport	(4,857)	955
Fire and other damage to property	(2,962)	9,356
Third party liability	19,287	10,196
Miscellaneous	1,142	19,222
Reinsurance	6,695	5,338
Favourable development	15,229	42,769

Gross Claims Development

Pure underwriting year	**2013 £000**	**2014 £000**	**2015 £000**	**2016 £000**	**2017 £000**	**2018 £000**	**2019 £000**	**Total £000**
Estimate of cumulative claims incurred								
At the end of the underwriting year	70,157	60,901	59,333	88,028	111,889	100,848	86,514	
One year later	185,554	128,987	140,793	213,707	240,002	199,603		
Two years later	200,212	153,863	156,929	244,965	263,415			
Three years later	208,011	155,316	158,999	259,393				
Four years later	205,241	146,067	159,460					
Five years later	197,634	144,564						
Six years later	199,239							
Less: cumulative payments to date	(178,134)	(115,253)	(103,807)	(148,751)	(132,391)	(77,509)	(2,684)	
Ultimate claims reserve – 2013 to 2019	21,105	29,311	55,653	110,642	131,024	122,094	83,830	553,659
Ultimate claims reserve – 2012 & prior								44,080
Gross claims outstanding provision								597,739

Net Claims Development

Pure underwriting year	**2013 £000**	**2014 £000**	**2015 £000**	**2016 £000**	**2017 £000**	**2018 £000**	**2019 £000**	**Total £000**
Estimate of cumulative claims incurred								
At the end of the underwriting year	44,746	49,480	50,029	73,364	80,241	76,462	66,140	
One year later	121,039	108,455	118,866	172,216	173,348	155,428		
Two years later	135,038	117,023	135,937	198,637	192,405			
Three years later	134,965	118,179	131,636	194,869				
Four years later	133,401	108,456	127,960					
Five years later	125,948	106,761						
Six years later	123,337							
Less: cumulative payments to date	(103,871)	(83,974)	(84,880)	(116,233)	(85,874)	(57,000)	(1,151)	
Ultimate claims reserve – 2013 to 2019	19,466	22,787	43,080	78,636	106,531	98,428	64,989	433,917
Ultimate claims reserve – 2012 & prior								30,282
Net claims outstanding provision								464,199

5. Net Operating Expenses

	2019 £000	2018 £000
Acquisition costs	87,006	119,901
Change in deferred acquisition costs	9,148	(1,467)
Administrative expenses	26,432	36,506
Gross operating expenses	122,586	154,940
Reinsurers' commissions	(7,008)	(7,622)
Net operating expenses	115,578	147,318

6. Auditor's Remuneration

	2019 £000	2018 £000
Fees payable to the Syndicate's auditor for:		
Audit of the Syndicate Annual Accounts	47	45
Other services pursuant to regulations and Lloyd's byelaws	96	94
Other non-audit services	86	90
	229	229

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

7. Staff Numbers and Costs

All staff were employed by Hamilton Managing Agency Limited until 1 December 2019, at which point they were transferred to Hamilton UK Services Limited. The following amounts were recharged to the Syndicate in respect of salary costs:

	2019 £000	2018 £000
Wages and salaries	9,620	15,544
Social security costs	1,856	1,704
Other pension costs	666	783
Other	891	3,326
	13,033	21,357

The average number of employees employed by the managing agent but working for the Syndicate during the year was as follows:

	2019 Number	2018 Number
Administration and finance	13	14
Underwriting	62	88
Claims	19	15
Compliance	14	12
Other	2	3
	110	132

8. Emoluments of the Directors of Hamilton Managing Agency Limited

The Directors of Hamilton Managing Agency Limited received the following aggregate remuneration charged to the Syndicate and included within net operating expenses:

	2019 £000	2018 £000
Emoluments	653	1,056
Pension contributions	7	7
	660	1,063

This excludes a number of deferred awards which vested during the year, which would have been partially charged to the Syndicate (in this and prior years).

In addition to the emoluments disclosed above, no payments (2018: none) in respect of compensation for loss of office were made to Directors during the year. No other director related compensation or amounts considered to represent key management personnel compensation was charged to the Syndicate.

The active underwriter received the following remuneration charged as a syndicate expense:

	2019 £000	2018 £000
Emoluments	455	347
Pension contributions	-	13
	455	360

9. Investment Return

	2019 £000	2018 £000
Interest from fair value through profit or loss investments	47	-
Interest from available for sale investments	6,474	4,977
Interest on cash at bank	333	1,112
Interest on overseas deposits	764	1,081
Investment income	7,618	7,170
Other income from investments designated as at fair value through profit or loss:		
Realised gains	5	-
Unrealised losses	(4)	-
	1	-
Other income from investments designated as available for sale:		
Realised gains/(losses)	2,240	(907)
Investment management charges	(429)	(390)
Total investment return transferred to the technical account	9,430	5,873

10. Financial Investments

	2019 Market Value £000	2019 Cost £000	2018 Market Value £000	2018 Cost £000
Short term deposits with financial institutions	20,749	20,749	79,395	79,395
Debt securities and other fixed income securities:				
- Available for sale	267,551	264,158	297,633	300,582
- Fair value through profit or loss	16,142	14,470	-	-
	304,442	299,377	377,028	379,977

The Syndicate classifies its financial instruments held at fair value in the balance sheet using a fair value hierarchy, as follows:

Level 1 Included in the level 1 category are financial assets that are measured by reference to published quotes in an 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.

Level 2 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.

Level 3 Included in the level 3 category are financial assets measured using a valuation technique (model) based on assumptions that are neither supported by prices from observable current market transactions in the same instrument nor are they based on available market data. Therefore, observable inputs reflect the Syndicate's own assumptions about the assumptions that market participants would use in pricing the asset. These inputs are developed based on the best information available, which might include the Syndicate's own data.

2019	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Short term deposits with financial institutions	19,705	-	1,044	20,749
Debt securities and other fixed income securities	25,905	257,788	-	283,693
Other assets: overseas deposits	-	65,359	-	65,359
Total	45,610	323,147	1,044	369,801

2018	Level 1 £000	Level 2 £000	Level 3 £'000	Total £000
Short term deposits with financial institutions	79,395	-	-	79,395
Debt securities and other fixed income securities	32,962	264,671	-	297,633
Other assets: overseas deposits	-	56,949	-	56,949
Total	112,357	321,620	-	433,977

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

11. Debtors Arising Out of Direct Insurance Operations

	2019 £000	2018 £000
Amounts due from intermediaries:		
Due within one year	128,941	129,622
Due after one year	-	69
	128,941	129,691

12. Debtors Arising Out of Reinsurance Operations

	2019 £000	2018 £000
Due within one year	69,766	86,718
Due after one year	5	15
	69,771	86,733

13. Other Debtors

	2019 £000	2018 £000
Due within one year	32,519	54,383
Due after one year	4,627	6,875
	37,146	61,258

14. Deferred Acquisition Costs

	2019 £000	2018 £000
Balance at 1 January	66,294	62,807
Change in deferred acquisition costs	(9,148)	1,467
Effect of exchange rates	(2,945)	2,020
	54,201	66,294

15. Technical Provisions

Year ended 31 December 2019	Provision for unearned premium £000	Claims Outstanding £000
Gross technical provisions:		
Balance at 1 January	266,219	618,131
Movement in the provision	(48,087)	(6,089)
Foreign exchange movements	(6,790)	(14,303)
Balance at 31 December	211,342	597,739
Reinsurers' share of technical provisions:		
Balance at 1 January	42,776	140,971
Movement in the provision	(2,694)	(3,640)
Foreign exchange movements	(934)	(3,791)
Balance at 31 December	39,148	133,540
Net technical provision:		
Balance at 1 January	223,443	477,160
Balance at 31 December	172,194	464,199

Year ended 31 December 2018	Provision for unearned premium £000	Claims Outstanding £000
Gross technical provisions:		
Balance at 1 January	254,143	523,820
Movement in the provision	2,774	76,729
Foreign exchange movements	9,302	17,582
Balance at 31 December	266,219	618,131
Reinsurers' share of technical provisions:		
Balance at 1 January	38,924	102,844
Movement in the provision	2,358	33,386
Foreign exchange movements	1,494	4,741
Balance at 31 December	42,776	140,971
Net technical provision:		
Balance at 1 January	215,219	420,976
Balance at 31 December	223,443	477,160

16. Related Parties

Managing Agent

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

Syndicate 2014

The Directors of HMA have made a working capital facility available to Syndicate 2014, a non-aligned syndicate also managed by HMA, in the form of an inter-syndicate loan from Syndicate 4000. The balance of the loan as at 31 December 2019 was £13.7m (2018: £32.0m) and is included in other debtors in note 13. Interest on amounts outstanding charged to Syndicate 2014 in the financial year totalled £0.8m (2018: £0.9m).

Syndicate 6125

The Syndicate cedes business by way of variable rate quota share arrangements to Syndicate 6125, which is also managed by HMA. The creditor balance relating to this arrangement as at 31 December 2019 is £50.7m (2018: £42.5m), and the debtor balance is £37.5m (2018: £25.6m).

Capital

Capital to support the underwriting of the Syndicate is provided by LCC2 and (with effect from the 2019 year of account) ICC3. LCC2's immediate parent company is Ironshore International Limited which is ultimately owned by Liberty Mutual Holding Company Inc. ICC3's immediate parent company was Ironshore International Limited until 20 August 2019, thereafter Hamilton UK Holdings Limited. LCC2 participates on the 2018 and 2019 years of account of Syndicate 2014 on the same commercial basis as other Names participating on that syndicate. Capital to support the underwriting of the Syndicate is provided by HCM in 2020.

Ultimate Parent Company

The ultimate parent company of LCC2 is Liberty Mutual Holding Company Inc., a company registered in the United States of America. The ultimate parent company of ICC3, HMA and HCM is Hamilton Insurance Group, Ltd, a company registered in Bermuda.

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.

17. Funds at Lloyd's

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

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

18. Off Balance Sheet Items

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