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Syndicate 4000

Annual Report

Year ended
31 December 2020

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SYNDICATE 4000

DIRECTORS AND ADVISERS

Managing Agent

Hamilton Managing Agency Limited

Registered Office

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

Registered Number

05832065

Directors

P. J. Barrett	Non-Executive
M. J. Beacham	Independent Non-Executive
M. J. Beane	Independent Non-Executive
C. D. Brown (resigned 30 June 2020)	Executive
T. A. B. H. Glover (resigned 20 November 2020)	Executive
P. C. F. Haynes	Independent Non-Executive, Chairman
J. F. Reiss (resigned 30 June 2020)	Non-Executive
P. Skerlj (resigned 8 September 2020)	Non-Executive
A. Ursano Jr (resigned 8 September 2020)	Non-Executive
R. S. Vetch	Executive
D. N. White (resigned 11 November 2020)	Executive

Company Secretary

D.V.T. Ford

Syndicate

Active Underwriter

A. J. Daws (resigned 22 December 2020)
M. E. Colaço-Osorio (appointed 22 December 2020)

Bankers

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

Investment Managers

Conning Asset Management Limited
Liberty Mutual Group Asset Management Inc.

Auditor

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

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 2020.

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 2020 year of account was £340.0m (2019: £236.0m). The capacity for the 2021 year of account is £350.0m. Capital to support the underwriting of the Syndicate is provided by entities that are ultimately owned by Hamilton Insurance Group, Ltd (collectively with its subsidiaries, "the Hamilton Group") and Liberty Mutual Holding Company Inc. (collectively with its subsidiaries, "the Liberty Mutual Group"):

- Hamilton Corporate Member Limited ("HCM") for the 2020 and 2021 years of account (ultimately owned by Hamilton Insurance Group, Ltd).
- Ironshore CC (Three) Limited ("ICC3") for the 2019 year of account (purchased and ultimately owned by Hamilton Insurance Group, Ltd from 20 August 2019).
- Liberty Corporate Capital (Two) Ltd ("LCC2") for the 2018 and prior years of account (ultimately owned by Liberty Mutual Holding Company Inc.).

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 Syndicate 3334 (from 1 January 2020). For the 2018 and 2019 years of account, LCC2 also has participations on Syndicate 2014. HCM supports all open years of account of Syndicate 3334, otherwise, capital to support the underwriting of these syndicates is provided by third parties that are unrelated to the Hamilton Group. Transactions between these syndicates and entities within the Hamilton Group are conducted on a normal commercial basis.

Business of the Syndicate

The Syndicate continues to be a provider of specialist insurance and reinsurance products and aims to write a low volatility portfolio of niche Specialty, Casualty and Property 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 2020 financial year gross written premium by product area was as follows:

	2020 **£000**	**2019** **£000**
Direct:		
- Specialty	149,870	123,067
- Casualty	105,572	98,010
- Property	34,943	26,292
Reinsurance	74,237	36,431
Run-off Lines	14,461	17,840
Total	379,083	301,640

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

Further details of the product areas are provided below.

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.

Specie & Fine Art / High Value Cargo written via a selective number of specialist partners and also through Hamilton's consortium, where capacity is required.

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 – Casualty

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 Cyber division began underwriting in July 2019 and has developed a diverse portfolio of exposure by geography and sector, predominantly on an excess basis.

The Hamilton Group has hired a new M&A team to replace this part of the portfolio that was retained by Liberty. The business includes warranties and indemnities for parties to mergers & acquisitions, as well as tax specific covers.

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

The Agriculture book is a diversified portfolio of risks, accepted by way of both proportional and non-proportional treaties. Products include crop, livestock, bloodstock, forestry and aquaculture.

The UK Treaty team write a combination of Property Treaty, War & Terror Treaty, Energy Treaty (both onshore and offshore but excluding Gulf of Mexico) and Aviation Treaty. The focus is on short-tail lines supported by cat modelling and other actuarial support.

In addition to underwriters located in the UK, the book is serviced by Hamilton Group owned coverholders based in local markets.

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 sourced its underwriting by way of quota share reinsurance cessions from its host, which is Syndicate 4000. Syndicate 6125 was placed into run-off in November 2020.

Review of Financial Performance

The Syndicate's key financial indicators are as follows:

	2020 £000	**2019 £000**
Syndicate capacity	340,000	236,000
Gross written premium	379,083	301,640
Loss for the financial year	(4,413)	(3,018)
Total comprehensive income for the financial year	1,245	4,612
Combined ratio	104.6%	104.9%
Investments, cash and deposits	412,255	400,009

The Syndicate reports a loss for the year of £4.4m, reflecting claims activity. The performance of the Syndicate's business through the current market conditions 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.

Gross Written Premiums

The Syndicate reports gross written premiums for the financial year of £379.1m (2019: £301.6m), representing an increase of 20.4% on the prior year. This increase is due to the transfer and renewal of Syndicate 3334 business in Syndicate 4000 and positive rate increases.

Claims Incurred

The increase in the net loss ratio to 62.0% (2019: 60.8%) includes the impact of COVID-19 on the 2020 results, with the additional reserves recognised in relation to potential COVID-19 losses adding 7.0% to the net claims ratio. The impact on the net claims ratio of natural catastrophe loss reserving movements in the year is 17%, an improvement of 4% when compared to the 2019 total of 21%. The key CAT losses in 2020 are Hurricanes Sally, Laura, Zeta and the Derecho severe weather event.

Investment Return

Investment return in 2020 was £8.4m (2019: £9.4m).

Net Operating Expenses

Net operating expenses (note 5) in 2020 were £114.6m (2019: £115.6m). This reflects an increase in operating expenses due to the combination with Syndicate 3334, offset by a focus on expense management and an increase in ceding commissions charged due to the whole account quota share in 2020.

Balance Sheet

Syndicate assets have increased by £56.3m to £921.2m (2019: £864.9m) and the total liabilities have increased by £75.0m to £987.1m (2019: £912.1m) as a result of an increase in business activity following the transfer of certain portfolios from Syndicate 3334.

Part VII Transfer

Following the UK's departure from the European Union, the Syndicate transferred its European non-life insurance policies written between 2009 and 2020 to Lloyd's Insurance Company S.A. (LIC) on the 30 December 2020 in order to continue to access business located in Europe. On the same day, LIC subsequently reinsured the same liabilities back to the Syndicate. There was no gain or loss in this transaction and both the Syndicate and LIC were left in the same economic position prior to the transaction. Note 3 of the financial statements contains more details of the transfer and the accounting policies have been updated to reflect the accounting treatment followed.

Future Prospects

The rating environment outlook remains positive for 2021 and it is expected the Syndicate will see a risk adjusted rate increase of 8%. Having finalised the consolidation and integration of Syndicates 3334 and 4000, the Syndicate will continue to develop its core lines of business. Expansion is being sought through the Hamilton Group's development of its US specialty business MGA platform.

On 15 February 2021, HMA entered into a reinsurance to close ("RITC") transaction with a fellow Lloyd's managing agency, RiverStone Managing Agency Limited, on behalf of Syndicate 3500 for the 2018 & prior years of account of the Syndicate. The RITC is effective 1 January 2021.

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.

The Board ensures that the interests of its staff members are appropriately considered when taking decisions. In 2020 this was demonstrated by:

- Regular Employee Town Halls where senior management facilitated discussion on key business developments in an open forum.
- A periodic staff engagement survey with appropriate follow up action taken.
- The establishment of the Black Lives Matter working group as an extension to the Diversity & Inclusion Forum.
- Regular training for staff members on various matters from unconscious bias to mindfulness.
- The launch of a new long-term incentive compensation plan.

HMA is committed to supporting the health and wellbeing of its staff members and has partnered with a leading online workplace mental health platform as part of its Employee Assistance Programme. Hamilton is committed to creating an inclusive workspace where all employees thrive. HMA embraces all backgrounds, perspectives, experiences and talents – without discrimination.

The Company actively monitored the evolving situation with the global Coronavirus (COVID-19) pandemic to ensure the well-being of staff members, as well as uninterrupted service and responsiveness to clients.

Environmental Matters

HMA is dedicated to being a responsible business and taking care of its community and the environment. HMA's approach is to use its position of strength to create a positive change for the people and communities with which the Company interacts. HMA seeks to leverage its expertise and enable employees to support the communities around us.

Business Relationships

HMA is committed to being a conscientious business and doing the right thing for its customers and business partners. The Board recognises that relationships with stakeholders are key to the delivery of the strategy. As such, HMA looks to conduct business with like-minded firms by undertaking the appropriate due diligence to ensure they have good prospects for future and longevity in the market. HMA ensures compliance with all applicable laws and a raft of internal policies, processes and procedures cover all aspects of the business to ensure outcomes of business practice achieve consistently high business and ethical standards. These policies, procedures and processes are renewed regularly.

Business Conduct

The Board recognises that a commitment to a high standard of business conduct is critical to the delivery of the strategy and aspires to complete honesty and transparency in all activity. Among key documents reviewed and approved by the Board annually are the Conduct Management Framework, Whistleblowing Policy, Financial Crime Prevention Policy, and the Code of Conduct & Ethics. The Board further monitors conduct management at each meeting and is committed to maintaining high ethical standards.

Regulators

HMA has transparent communication with its key regulators which is facilitated through the compliance team. Any significant regulatory engagements are reported to the Board of HMA.

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 an Underwriting and Risk Committee ("URC") 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") report 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 2020 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.

R. S. Vetch
Chief Financial Officer
9 March 2021

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 2020 which comprise the Income Statement, 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 19, 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 2020 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

In auditing the syndicate annual accounts, we have concluded that the managing agent's use of the going concern basis of accounting in the preparation of the syndicate annual accounts is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the syndicate's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from when the syndicate annual accounts are authorised for issue.

Our responsibilities and the responsibilities of the managing agent with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the syndicate's ability to continue as a going concern.

Other information

The other information comprises the information included in the annual report set out on pages 5 to 9, other than the syndicate annual accounts and our auditor's report thereon. The directors of the managing agent are 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 set out on page 10, 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.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the managing agent and management.

Our approach was as follows:

- We obtained a general understanding of the legal and regulatory frameworks that are applicable to the syndicate and determined that the most significant are direct laws and regulations, related to elements of Lloyd’s Byelaws and Regulations, and the financial reporting framework (UK GAAP), and requirements referred to by Lloyd’s in the instructions. Our considerations of other laws and regulations that may have a material effect on the syndicate annual accounts included permissions and supervisory requirements of the Lloyd’s of London, Prudential Regulation Authority (‘PRA’) and the Financial Conduct Authority (‘FCA’).
- We obtained a general understanding of how the syndicate is complying with those frameworks by making enquiries of management, internal audit, and those responsible for legal and compliance matters of the syndicate. In assessing the effectiveness of the control environment, we also reviewed significant correspondence between the syndicate, Lloyd’s of London and other UK regulatory bodies; reviewed minutes of the Board, Audit, Nomination, Investment and Risk Management Committee of the managing agent; and gained an understanding of the managing agent’s approach to governance.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud (continued)

For direct laws and regulations, we considered the extent of compliance with those laws and regulations as part of our procedures on the related syndicate annual accounts' items.

- For both direct and other laws and regulations, our procedures involved: making enquiries of the directors of the managing agent and senior management for their awareness of any non-compliance of laws or regulations, inquiring about the policies that have been established to prevent non-compliance with laws and regulations by officers and employees, inquiring about the managing agent's methods of enforcing and monitoring compliance with such policies, inspecting significant correspondence with Lloyd's, the FCA and the PRA.
- The syndicate operates in the insurance industry which is a highly regulated environment. As such the Senior Statutory Auditor considered the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities, which included the use of specialists where appropriate.
- We assessed the susceptibility of the Syndicate's annual accounts to material misstatement, including how fraud might occur by considering the controls that the managing agent has established to address risks identified by the managing agent, or that otherwise seek to prevent, deter or detect fraud. We also considered areas of significant judgement, including complex transactions, performance targets, external pressures and their potential to influence management to manage earnings or influence the perceptions of stakeholders. Where this risk was considered to be higher, we performed audit procedures to address each identified fraud risk. The fraud risk was considered to be higher in respect of inadequate reserving for gross claims liabilities and improper revenue recognition in relation to insurance premiums. These procedures included testing manual journals and were designed to provide reasonable assurance that the syndicate annual accounts were free from fraud or error.

Our audit procedures included:

- Reviewing accounting estimates for evidence of management bias. Supported by our Actuaries we assessed if there were any indicators of management bias in the valuation of insurance liabilities and estimated premium income.
- Evaluating the business rationale for significant and/or unusual transactions.
- Testing the appropriateness of journal entries recorded in the general ledger, particularly in respect of judgemental areas including insurance liabilities and insurance premiums.

In addition, we considered the impact of COVID-19 on the syndicate, including an assessment of the consistency of operations and controls in place as they transitioned to operating remotely for a significant proportion of 2020, and making enquiries with management via use of video conferencing. We performed analytical review procedures to assess for unusual movements throughout the year. Our audit procedures also incorporate unpredictability into the nature, timing and extent of our testing.

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
9 March 2021

SYNDICATE 4000

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	2020 £000	2019 £000
TECHNICAL ACCOUNT – GENERAL BUSINESS			
Earned premiums, net of reinsurance			
Gross premiums written	3	379,083	301,640
Outward reinsurance premiums		(138,466)	(84,794)
Net premiums written		240,617	216,846
Change in the provision for unearned premiums			
Gross amount		2,214	48,087
Reinsurers' share		26,538	(2,694)
Change in the net provision for unearned premiums		28,752	45,393
Earned premiums, net of reinsurance		269,369	262,239
Allocated investment return transferred from the non-technical account		8,421	9,430
Claims incurred, net of reinsurance			
Claims paid			
Gross amount		(220,607)	(237,543)
Reinsurers' share		70,546	75,631
Net claims paid		(150,061)	(161,912)
Change in the provision for claims			
Gross amount		(43,093)	6,090
Reinsurers' share		26,052	(3,640)
Change in the net provision for claims		(17,041)	2,450
Claims incurred, net of reinsurance		(167,102)	(159,462)
Net operating expenses	5	(114,569)	(115,578)
Balance on the technical account for general business		(3,881)	(3,371)
NON-TECHNICAL ACCOUNT			
Investment income	9	5,277	7,618
Realised gains on investments	9	3,457	2,245
Unrealised gains/(losses) on investments	9	73	(4)
Investment expenses and charges	9	(386)	(429)
Allocated investment return transferred to the technical account	9	(8,421)	(9,430)
Foreign exchange gains/(losses)		(532)	353
(Loss)/profit for the financial year		(4,413)	(3,018)
Other comprehensive income – currency translation differences		2,642	1,771
Fair value gains on available for sale investments		3,016	5,859
Total comprehensive income for the financial year		1,245	4,612

All the amounts above are in respect of continuing operations.

SYNDICATE 4000

STATEMENT OF CHANGES IN MEMBERS' BALANCES
FOR THE YEAR ENDED 31 DECEMBER 2020

	Profit and loss account £000	Available for sale reserve £000	Total members' balances £000
Balance at 1 January 2020	(51,000)	3,808	(47,192)
Underlying loss for the financial year	(4,413)	-	(4,413)
Fair value losses realised on available for sale	2,567	(2,567)	-
Other movements	510	(510)	-
(Loss)/profit for the financial year	(1,336)	(3,077)	(4,413)
Unrealised fair value gains on available for sale investments	-	3,016	3,016
Fair value currency translation differences	2,642	-	2,642
Payments of profits to members' personal reserve funds	(19,941)	-	(19,941)
Balance at 31 December 2020	(69,635)	3,747	(65,888)

	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)

SYNDICATE 4000

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2020

	Note	2020 £000	2019 £000
ASSETS			
Financial investments	10	332,578	304,442
Reinsurers' share of technical provisions			
Provision for unearned premiums	15	63,315	39,148
Claims outstanding	15	156,544	133,540
		219,859	172,688
Debtors due within one year			
Debtors arising out of direct insurance operations – intermediaries	11	133,493	128,941
Debtors arising out of reinsurance operations	12	87,969	69,766
Other debtors – due from other syndicates	13	15,530	32,519
		236,992	231,226
Debtors due after one year			
Debtors arising out of direct insurance operations – intermediaries	11	-	-
Debtors arising out of reinsurance operations	12	18	5
Other debtors – due from other syndicates	13	2,944	4,627
		2,962	4,632
Other assets			
Cash at bank and in hand		22,514	30,208
Other assets	10	57,163	65,359
		79,677	95,567
Prepayments and accrued income			
Deferred acquisition costs	14	47,600	54,201
Other prepayments & accrued income		1,542	2,117
		49,142	56,318
TOTAL ASSETS		921,210	864,873
MEMBERS' BALANCES AND LIABILITIES			
Members' balances		(65,888)	(47,192)
Technical provisions			
Provision for unearned premiums	15	206,496	211,342
Claims outstanding	15	627,639	597,739
		834,135	809,081
Creditors due within one year			
Creditors arising out of direct insurance operations – intermediaries		2,249	1,004
Creditors arising out of reinsurance operations		106,987	88,011
Other creditors		4,780	3,996
		114,016	93,011
Creditors due after one year			
Creditors arising out of direct insurance operations – intermediaries		-	142
Creditors arising out of reinsurance operations		26,752	4,352
			4,494
Accruals and deferred income		12,195	5,479
TOTAL MEMBERS' BALANCES AND LIABILITIES		921,210	864,873

The Syndicate Annual Accounts on pages 14 to 39 were approved by the Board of Hamilton Managing Agency Limited on 9 March 2021 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 2020

	Note	2020 £000	2019 £000
Cash flow from operating activities			
Operating result		**(4,413)**	**(3,018)**
Adjustments:			
Increase/(decrease) in gross technical provisions		40,879	(54,180)
(Increase)/decrease in reinsurers' share of gross technical provisions		(36,993)	15,482
(Increase)/decrease in debtors		(10,737)	35,588
Increase/(decrease) in creditors		48,085	(15,418)
Movement in other assets and liabilities		8,499	(8,964)
Investment return		(8,421)	(9,430)
Other		-	(281)
Net cash inflow/(outflow) from operating activities		**36,899**	**(40,221)**
Cash flows from investing activities			
Purchase of equity and debt instruments		(189,413)	(179,540)
Sale of equity and debt instruments		188,357	191,226
Investment income received		8,451	9,429
Net cash inflow from investing activities		**7,395**	**21,115**
Cash flows from financing activities			
Profit distributed to members (2016 year of account)		-	(31,962)
Profit distributed to members (2017 year of account)		(12,150)	-
Other		(7,535)	(5,016)
Net cash outflow from financing activities		**(19,685)**	**(36,978)**
Net increase/(decrease) in cash and cash equivalents		**24,609**	**(56,083)**
Cash and cash equivalents at 1 January		49,913	107,009
Foreign exchange on cash and cash equivalents		(1,490)	(1,013)
Cash and cash equivalents at 31 December		**73,032**	**49,913**
Comprises:			
Cash at bank and in hand		22,514	30,208
Short term deposits with financial institutions	10	50,518	19,705
Cash and cash equivalents at 31 December		**73,032**	**49,913**

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. Furthermore, the directors have assessed that the COVID-19 pandemic has no impact on the Syndicate's ability to continue as a going concern.

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.

Management have assessed the impact of the current COVID-19 pandemic. The degree of judgement (and uncertainty) in the booked reserves is somewhat higher because of COVID-19, otherwise, management do not consider that there are any impacts on accounting judgements for the Syndicate given that it is expected to maintain an appropriate level of liquidity and that its operational effectiveness has been maintained.

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 2020	31 December 2019
US dollar	1.37	1.32
Canadian dollar	1.74	1.72
Euro	1.12	1.18
Australian dollar	1.77	1.88

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.

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.

1. Statement of accounting policies (continued)

Basis of accounting (continued)

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 Underwriting & Risk Committee ("URC") 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

Insurance Risk is a core aspect of the Syndicate's business model and it is recognised that uncertainty associated with the frequency and severity of claims is inherent to general insurance. The Syndicate accepts a measured amount of this risk in exchange for underwriting profit, relying on the skills and experience of our underwriters and a robust control framework to reduce the likelihood and impact of this risk as far as is practicable and without unreasonable expense.

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

Principal Risks

The principal risk the Syndicate faces under insurance contracts is that the actual claims and payments or the timing thereof, 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.

2. Risk Management (continued)

Insurance Risk – Underwriting (continued)

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.

Underwriting Committee

The Syndicate organises underwriting through product areas. The URC provides direct oversight for each underwriting unit, and ultimately the URC reports to the HMA Board.

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.

The following table gives an indication of the likely quantum and scale of the largest (on a gross basis) Realistic Disaster Scenarios estimated for 2020 (highest gross event loss for year ended 31 December 2019 was Terrorism Attack – Rockefeller Center at £136.0m).

Realistic Disaster Scenarios	**Gross event loss £000**	**Net event loss £000**
California Earthquake (Los Angeles)	121,923	30,809
Gulf of Mexico Windstorm	119,015	39,745
California Earthquake (San Francisco)	103,755	28,539

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.

2. Risk Management (continued)

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)	**2020 £000**	**2019 £000**
Net loss ratio - increase of 5%	(13,468)	(13,112)
Net loss ratio - increase of 10%	(26,937)	(26,224)

Mitigation

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

Regulatory Risk

HMA is required to comply with the requirements of the Prudential Regulation Authority, the Financial Conduct Authority and Lloyd's. Lloyd's requirements include those imposed on the Lloyd's market by overseas regulators. 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 capital regime determined by the PRA which is based upon 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 applies at Lloyd's aggregate level, and not at syndicate level. Accordingly, the capital requirement in respect of the Syndicate is not disclosed in these financial statements.

2. Risk Management (continued)

Regulatory Risk (continued)

Provision of Capital by Members

Each member may provide capital to meet its Economic Capital Assessment ('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.

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 2020 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 2020	**AAA**	**AA**	**A**	**BBB and below**	**Not rated**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Variable yield securities	6,210	50,271	-	-	-	**56,481**
Debt securities	55,123	106,792	82,427	24,764	6,991	**276,097**
Overseas deposits	-	-	57,163	-	-	**57,163**
Reinsurers' share of outstanding claims	-	7,180	140,470	-	8,894	**156,544**
Reinsurance debtors not yet past due	-	416	72,243	-	6,102	**78,761**
Cash at bank and in hand	-	250	22,264	-	-	**22,514**
Total	**61,333**	**164,909**	**374,567**	**24,764**	**21,987**	**647,560**

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**

2. Risk Management (continued)

Credit Risk (continued)

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.

Investment credit risk is managed through investment management guidelines and quarterly compliance reports.

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 2020	**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	56,481	-	-	-	-	56,481
Debt securities	276,097	-	-	-	-	276,097
Overseas deposits	57,163	-	-	-	-	57,163
Reinsurers share of outstanding claims	156,544	-	-	-	-	156,544
Reinsurance debtors	78,761	-	-	-	-	78,761
Cash at bank and in hand	22,514	-	-	-	-	22,514
Insurance debtors	76,163	9,060	17,483	18,240	12,547	133,493
Other debtors	140,157	-	-	-	-	140,157
Total	863,880	9,060	17,483	18,240	12,547	921,210

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 the balance sheet date, all financial assets of the Syndicate are unimpaired (2019: all unimpaired).

Liquidity Risk

Liquidity Risk is the risk that the Syndicate, although solvent, either does not have available sufficient financial resources to enable it to meet its obligations as they fall due or can secure such resources only at excessive cost. 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 2020	No stated maturity £000	Up to one year £000	One to three years £000	Three to five years £000	Greater than five years £000	Total £000
Claims outstanding	-	234,278	247,036	91,919	54,406	627,639
Creditors	944	133,104	6,720	-	-	140,768
Total	944	367,382	253,756	91,919	54,406	768,407

As at 31 December 2019	No stated maturity £000	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

Market Risk

Investment Risk

The syndicate's investments are exposed to two key risks: interest rate risk and credit risk. Interest rate risk is driven by changes in the value or future cash flows of a financial instrument due to changes in market interest rates. Credit risk is driven by the change in the value of an instrument due to either a change in the market's view of its credit worthiness or alternatively due to a default - the risk of a default on instrument is described in the credit risk section above. Since the syndicate holds investments in government and corporate bonds, it is exposed to these risks.

The below sets out the impact of a 50 basis point movement in interest rates. Note insurance liabilities are not discounted in these accounts and therefore are not exposed to interest rate risk, although they are under the Solvency II regime used under the Lloyd's capital framework.

Interest rate risk	2020 £000	2019 £000
Impact of 50 basis point increase on result	(3,493)	(3,806)
Impact of 50 basis point decrease on result	3,493	4,099
Impact of 50 basis point increase net assets	(3,493)	(3,806)
Impact of 50 basis point decrease net assets	3493	4,099

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 2020	GBP £000	USD £000	EUR £000	CAD £000	AUD £000	Total £000
Financial investments	38,673	209,819	15,946	68,140	-	332,578
Reinsurers' share of technical provisions	65,156	136,670	9,296	1,315	7,422	219,859
Insurance assets	44,861	162,426	3,356	5,444	5,393	221,480
Cash and overseas deposits	37,360	6,021	5,222	12,225	18,849	79,677
Other assets	18,300	36,135	9,800	2,615	766	67,616
Total assets	204,350	551,071	43,620	89,739	32,430	921,210
Technical provisions	187,186	496,336	61,953	53,634	35,026	834,135
Insurance liabilities	16,438	104,617	7,655	4,817	2,461	135,988
Other creditors	11,199	6,459	512	(1,377)	182	16,975
Total liabilities	214,823	607,412	70,120	57,074	37,669	987,098
Currency (deficiency)/surplus	(10,473)	(56,341)	(26,500)	32,665	(5,239)	(65,888)

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)

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.

	2020 £000	2019 £000
Sterling weakens		
10% against other currencies	(6,157)	(3,018)
20% against other currencies	(13,853)	(6,791)
Sterling strengthens		
10% against other currencies	5,037	2,469
20% against other currencies	9,235	4,527

Operational Risk

The Syndicate is potentially exposed to direct or indirect losses resulting from inadequate or failed internal processes, systems, or people, or from external events. 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:

2020	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	30,423	33,663	(20,231)	(18,268)	2,255	(2,581)
Marine aviation and transport	24,857	19,653	(17,987)	(8,165)	1,429	(5,070)
Fire and other damage to property	62,126	52,504	(38,210)	(20,843)	(1,895)	(8,444)
Third party liability	100,462	120,747	(68,631)	(43,668)	3,734	12,182
Miscellaneous	27,084	35,740	(19,553)	(13,010)	(247)	2,930
	244,952	262,307	(164,612)	(103,954)	5,276	(983)
Reinsurance	134,131	118,990	(99,088)	(36,373)	5,152	(11,319)
Total	379,083	381,297	(263,700)	(140,327)	10,428	(12,302)

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)

Commissions on direct insurance gross premiums during 2020 were £62.6m (2019: £66.7m).

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.

On 30 December 2020, the Syndicate transferred its EEA non-life insurance policies written between 2009 and 2020 to Lloyd's Insurance Company S.A. ('Lloyd's Brussels') pursuant to Part VII of the Financial Services and Markets Act 2000. The value of the net liabilities transferred was $73.5m. The Syndicate transferred cash of the same amount to Lloyd's Brussels. Lloyd's Brussels subsequently reinsured the same liabilities back to the Syndicate on the same day. The reinsurance premium received was of the same amount of $73.5m. There was no gain or loss arising on either transaction.

Both the cash transferred for the Part VII transfer and the premium subsequently received back from Lloyd's Brussels have been included in gross written premiums within the income statement. This treatment best reflects the connection between economic substance of both the Part VII transfer and the associated reinsurance arrangement, and the resulting economic substance of the combined transaction.

Current year underwriting results for the transferred policies have been reported in the same classes of business as in prior years, as the effective date of the transfer was 30 December 2020, and in line with Society of Lloyd's guidance no movements were processed on these policies on 31 December 2020. In future years, results relating to these risks will be reported under the Inwards Reinsurance class of business, reflecting the new contractual arrangement with Lloyd's Brussels. The transaction has no impact on equity.

3. Segmental Analysis (continued)

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

	2020 £000	2019 £000
UK, Channel Islands and Isle of Man	115,210	87,612
Rest of Europe	49,046	48,202
US	172,580	119,268
Other	42,247	46,558
Total	379,083	301,640

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 £8.3m (2019 favourable development: £15.2m). Prior year claims development is analysed by line of business in the table below.

	2020 £000	2019 £000
Accident & health	(1,338)	(4,076)
Marine aviation and transport	(6,716)	(4,857)
Fire and other damage to property	(1,341)	(2,962)
Third party liability	11,937	19,287
Miscellaneous	8,832	1,142
Reinsurance	(3,047)	6,695
Favourable development	8,328	15,229

Gross Claims Development

Pure underwriting year	2013 £000	2014 £000	2015 £000	2016 £000	2017 £000	2018 £000	2019 £000	2020 £000	Total £000
Estimate of cumulative claims incurred									
At the end of the underwriting year	68,518	59,346	58,299	86,870	109,535	99,321	84,958	106,620	
One year later	180,486	125,922	138,295	210,348	236,717	196,305	163,878		
Two years later	194,795	150,044	154,052	241,149	259,165	222,542			
Three years later	202,718	151,366	155,893	254,422	259,850				
Four years later	200,061	142,354	156,191	278,558					
Five years later	192,660	140,842	161,599						
Six years later	194,260	146,128							
Seven years later	194,834								
Less: cumulative payments to date	(178,724)	(117,708)	(107,355)	(198,303)	(159,422)	(121,704)	(45,410)	(12,144)	
Ultimate claims reserve – 2013 to 2020	16,110	28,420	54,244	80,255	100,428	100,838	118,468	94,476	593,239
Ultimate claims reserve – 2012 & prior									34,400
Gross claims outstanding provision									627,639

4. Claims Incurred, Net of Reinsurance (continued)

Net Claims Development

Pure underwriting year	2013	2014	2015	2016	2017	2018	2019	2020	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Estimate of cumulative claims incurred									
At the end of the underwriting year	43,807	48,228	49,257	72,478	78,852	75,520	65,070	67,913	
One year later	117,998	105,921	117,005	169,830	171,678	153,041	127,999		
Two years later	131,675	114,195	133,743	195,849	189,820	164,871			
Three years later	131,677	115,280	129,363	191,689	183,449				
Four years later	130,213	105,801	125,681	203,808					
Five years later	122,965	104,117	130,221						
Six years later	120,399	105,534							
Seven years later	120,660								
Less: cumulative payments to date	(105,799)	(84,852)	(85,501)	(139,738)	(109,191)	(87,496)	(36,599)	(8,816)	
Ultimate claims reserve – 2013 to 2019	14,861	20,682	44,720	64,070	74,258	77,375	91,400	59,097	446,463
Ultimate claims reserve – 2012 & prior									24,632
Net claims outstanding provision									471,095

5. Net Operating Expenses

	2020 £000	2019 £000
Acquisition costs	92,465	87,006
Change in deferred acquisition costs	15,365	9,148
Administrative expenses	32,497	26,432
Gross operating expenses	140,327	122,586
Reinsurers' commissions	(25,758)	(7,008)
Net operating expenses	114,569	115,578

6. Auditor's Remuneration

	2020 £000	2019 £000
Fees payable to the Syndicate's auditor for:		
Audit of the Syndicate Annual Accounts	61	47
Other services pursuant to regulations and Lloyd's byelaws	125	96
Other non-audit services	98	86
	284	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:

	2020 £000	2019 £000
Wages and salaries	14,709	9,620
Social security costs	1,828	1,856
Other pension costs	924	666
Other	206	891
	17,667	13,033

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

	2020 Number	2019 Number
Administration and finance	21	13
Underwriting	95	62
Claims	22	19
Compliance	29	14
Other	32	2
	198	110

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:

	2020 £000	2019 £000
Emoluments	856	653
Pension contributions	1	7
	857	660

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).

No other director related compensation or amounts considered to represent key management personnel compensation was charged to the Syndicate.

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

	2020 £000	2019 £000
Emoluments	337	455
Pension contributions	-	-
	337	455

9. Investment Return

	2020 £000	**2019 £000**
Interest from fair value through profit or loss investments	495	47
Interest from available for sale investments	4,494	6,474
Interest on cash at bank	77	333
Interest on overseas deposits	211	764
Investment income	5,277	7,618
Other income from investments designated as at fair value through profit or loss:		
Realised gains	889	5
Unrealised gains/(losses)	73	(4)
	962	1
Other income from investments designated as available for sale:		
Realised gains	2,567	2,240
Investment management charges	(385)	(429)
Total investment return transferred to the technical account	8,421	9,430

10. Financial Investments

	2020 Market Value £000	2020 Cost £000	2019 Market Value £000	2019 Cost £000
Short term deposits with financial institutions	56,481	56,481	20,749	20,749
Debt securities and other fixed income securities:				
- Available for sale	210,766	204,474	267,551	264,158
- Fair value through profit or loss	65,332	65,332	16,142	14,470
	332,578	326,286	304,442	299,377

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.

2020	**Level 1 £000**	**Level 2 £000**	**Level 3 £000**	**Total £000**
Short term deposits with financial institutions	50,518	-	5,963	56,481
Debt securities and other fixed income securities	64,803	211,294	-	276,097
Other assets: overseas deposits	-	57,163	-	57,163
Total	115,321	268,457	5,963	389,741

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

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

	2020 £000	2019 £000
Amounts due from intermediaries:		
Due within one year	133,493	128,941
Due after one year	-	-
	133,493	128,941

12. Debtors Arising Out of Reinsurance Operations

	2020 £000	2019 £000
Due within one year	87,969	69,766
Due after one year	18	5
	87,987	69,771

13. Other Debtors

	2020 £000	2019 £000
Due within one year	15,530	32,519
Due after one year	2,944	4,627
	18,474	37,146

14. Deferred Acquisition Costs

	2020 £000	2019 £000
Balance at 1 January	54,201	66,294
Change in deferred acquisition costs	(3,413)	(9,148)
Effect of exchange rates	(3,188)	(2,945)
	47,600	54,201

15. Technical Provisions

Year ended 31 December 2020	Provision for unearned premium £000	Claims Outstanding £000
Gross technical provisions:		
Balance at 1 January	211,342	597,739
Movement in the provision	(2,214)	43,093
Foreign exchange movements	(2,632)	(13,193)
Balance at 31 December	206,496	627,639
Reinsurers' share of technical provisions:		
Balance at 1 January	39,148	133,540
Movement in the provision	26,538	26,052
Foreign exchange movements	(2,371)	(3,048)
Balance at 31 December	63,315	156,544
Net technical provision:		
Balance at 1 January	172,194	464,199
Balance at 31 December	143,181	471,095

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

16. Related Parties

Managing Agent

The Syndicate is managed by Hamilton Managing Agency Limited ("HMA"). 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 nil (2019: £13.7m) and is included in other debtors in note 13. Interest on amounts outstanding charged to Syndicate 2014 in the financial year totalled £0.3m (2019: £0.8m).

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 2020 is £52.7m (2019: £50.7m), and the debtor balance is £38.5m (2019: £37.5m).

Capital

Capital to support the underwriting of the Syndicate is provided by LCC2 and (with effect from the 2019 year of account) ICC3 / HCM. 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 (which is also the immediate parent company of HCM). 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.

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.

19. Subsequent Events

On 15 February 2021, HMA entered into an external reinsurance to close contract (on behalf of Liberty Corporate Capital (Two) Limited, as the member of Lloyd's who constitutes Syndicate 4000 for this year of account) with a fellow Lloyd's managing agency, RiverStone Managing Agency Limited. Under this agreement, the assets and liabilities of the 2018 underwriting year of account are transferred to the 2019 underwriting year of account of Syndicate 3500, including net technical provisions at the closing balance sheet date of £355.8m. Under the terms of a transitional services arrangement HMA will continue to manage parts of this portfolio until such time as the assets and liabilities are transferred in full, however the economic balance sheet will transfer effective 1 January 2021 and will no longer be accounted for within Syndicate 4000's report and accounts.

Syndicate 4000 will therefore comprise three fully aligned open years, 2019, 2020 and 2021, from 1 January 2021.