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TOKIO MARINE
KILN

Annual Report and Accounts 2014

Syndicate 1880
Managed by Tokio Marine Kiln
Syndicates Limited

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Directors, Active Underwriters and administration

Managing agent

Tokio Marine Kiln Syndicates Limited
(formerly R J Kiln & Co. Limited)

Directors

Paul Hewitt (Chairman)
Charles Franks (Chief Executive Officer)
Richard Bennison (non-executive)
David Constable (non-executive)
Rosie Harris (non-executive) Appointed 4/7/2014
James Dover
Denise Garland
Andrew Hitchcox
Richard Lewis
Satoshi Naganuma Resigned 1/4/2014

Company Secretary

Fiona Molloy

Active Underwriter

Satoshi Naganuma

Investment managers

Threadneedle Asset Management Ltd
60 St Mary Axe
London EC3A 8JQ

Guggenheim Partners Investment Management LLC
330 Madison Avenue
New York NY 10017

Managing agent's registered office

20 Fenchurch Street
London EC3M 3BY

BlackRock Investment Management (UK) Ltd
12 Throgmorton Avenue
London EC2N 2DL

Managing agent's registered number

9216575

Statutory auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
7 More London Riverside
London SE1 2RT

Bankers

Citibank N.A.
HSBC Bank plc
Lloyds Banking Group plc
Royal Bank of Canada
J P Morgan
Barclays plc

Solicitors

Norton Rose
3 More London Riverside
London SE1 2AQ

Report of the directors of the managing agent

This report covers Tokio Marine Kiln Syndicate 1880 (Syndicate 1880), managed by Tokio Marine Kiln Syndicates Limited, which was renamed from R J Kiln & Co Limited with effect from 10 November 2014. The directors of the managing agent present the report and accounts for the year ended 31 December 2014 under UK Generally Accepted Accounting Practice (GAAP).

The annual report for the managed syndicate is prepared using the annual basis of accounting as required by Statutory Instrument No 1950 of 2008, the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 (the 2008 Regulations).

Syndicate underwriting year accounts have not been prepared for the closing 2012 year of account in accordance with the exemption available under Regulation 6(1) of the 2008 Regulations.

Tokio Marine Kiln Syndicates Limited also manages Syndicates 510, 557 and 308, the annual report and accounts for which are presented in a separate document.

Results

The result for the 2014 calendar year is a profit of £39.7m (2013: £92.2m) on gross written premium of £147.0m (2013: £237.0m) and net earned premium of £147.9m (2013: £175.4m).

Principal activity and review of the business

The principal activity of the syndicate is the transaction of general insurance and reinsurance business on a worldwide basis in the Lloyd's market.

Syndicate 1880 was established as a new syndicate at Lloyd's for the 2009 year of account. The syndicate is managed by Tokio Marine Kiln Syndicates Limited, with capital provided on an aligned basis by Tokio Marine Underwriting Limited, a wholly owned subsidiary of Tokio Marine & Nichido Fire Insurance Co., Ltd.

The syndicate currently performs four key roles:

- to underwrite Large Commercial Property and Construction & Engineering insurance, where the syndicate has dedicated underwriting resources developing these lines as part of its strategy to grow them internationally;
- to provide additional capacity for third-party business, largely supporting initiatives where Syndicate 510 has a significant participation;
- to provide products and capacity to support the group with strategic growth into new markets; and
- to reinsure Tokio Marine Kiln managed Syndicate 510, where the shares taken reflect the proportion of Tokio Marine's share of capacity on Syndicate 510.

During 2014 the syndicate reduced the level of catastrophe exposure assumed. In addition, certain reinsurance programmes of Syndicate 510 are no longer written by Syndicate 1880 which in combination with the current soft market environment, has led to an overall reduction in the premium.

Growth was achieved mainly from:

- Large Commercial Property accounts by assuming new portfolios from group companies; and
- organic growth from the strategic investments in WNC Insurance Services, Inc. (WNC) and NAS Insurance Services, Inc. (NAS).

Steven Norcliffe, was appointed as new Head of Construction & Engineering with three new underwriters joining the team. The proposition is to become one of the leading underwriters in the Construction/Engineering market, with platforms in London, Hong Kong and Singapore.

Integration

With effect from January 2014, Kiln and Tokio Marine Europe, a fellow subsidiary within the Tokio Marine Group, joined forces to create Tokio Marine Kiln – a leading provider of specialist and corporate insurance products and services to the Lloyd's and Company markets.

By bringing together two strong, long-standing businesses with distinct yet complementary capabilities, the intention is to create a platform to deliver continued profitable growth. The Lloyd's and Company underwriting functions of both operations will remain separate, and our commitment to Lloyd's remains unchanged.

Outlook

For 2015, the syndicate will continue to develop its Large Commercial Property, Construction & Engineering insurance and third party business in order to achieve profitable scale in areas that enable it to diversify from a previous US property catastrophe-exposed bias.

Through working closely with Syndicate 510 underwriters and Tokio Marine Kiln's operations outside London, we will expand third party writings and focus on areas where market conditions present opportunities. In addition to exploring new relationships, it is anticipated that growth will also be generated from existing strategic partnerships, such as those we have established with US-based coverholders WNC and NAS.

The syndicate's key financial performance indicators (KPIs) during the year are as follows:

	2014	2013
	£'000s	£'000s
Gross written premium	146,974	236,974
Net earned premium	147,888	175,393
Profit for the financial year	39,708	92,193
Claims ratio	42%	16%
Combined ratio	74%	49%

As was the case last year, during 2014 there has been a further reduction to the reserves held for the 2011 Thai Flood event, due to claims settling for less than their reserves. A conservative approach was adopted for reserving in view of the scale of the floods.

Note: The claims ratio is the proportion of net claims incurred to net premiums earned and the combined ratio is the proportion of net claims incurred and net operating expenses (including personal expenses) to net premiums earned. A lower combined ratio represents a better performance. The above combined ratio includes the effects of profit or loss on exchange, which forms part of net operating expenses. Excluding this, the combined ratio would be 76% (2013: 50%).

Principal risks and uncertainties

Our business model remains consistent: we are specialist underwriters and we take a prudent approach to risk management.

We focus predominantly on shorter tail specialist lines of insurance and reinsurance business where we know that a loss has occurred relatively quickly, and so are able to make more immediate reliable estimates regarding the extent of the losses we might expect. We are substantially exposed to catastrophe related business and have detailed knowledge of the risks we underwrite.

It is our policy to confine exposure to risk primarily to core areas of expertise: the underwriting of specialist insurance and reinsurance risks. This approach means that we are at the cautious end of the spectrum in all areas of financial risk management, such as investment management and reserving. This allows us to protect our capital on the balance sheet and focus our risk appetite on underwriting.

Capital assessment and allocation

We have implemented a capital allocation model consistent with the Prudential Regulation Authority's (PRA) Solvency Capital Requirements (SCR). Risk appetite is set annually as part of the business planning and capital setting process. The output from the model produces an amount of capital consistent with the Lloyd's Economic Capital Assessment (ECA) regime, which is set to achieve a desired credit rating.

The model enables allocation of capital to business lines that will deliver the greatest return to capital providers at various stages of the cycle. It is also used to assess the value of different reinsurance strategies. The calculations are based upon sophisticated mathematical models that reflect the key risks in the business, allowing for the probability of occurrence, the potential impact should losses occur and the interactions between the different risk types.

The results of the modelling confirm that the majority of the capital is required to support the insurance underwriting risk, and that the amount of capital required for non-insurance risk is modest.

Insurance risk

The risk of loss arising from the inherent uncertainties as to the occurrence, amount and timing of insurance liabilities.

Insurance risk is sub-divided into underwriting risk, reinsurance risk and reserving risk.

Underwriting risk

The risk arising from fluctuations in the frequency and severity of financial losses incurred as a result of the acceptance of the insurance portfolio of business.

Insurance risk is managed by agreeing the syndicate's appetite for these risks annually through the business plan, which sets out targets for volumes, pricing, line sizes and retention by class of business. Volume and price performance is monitored against the syndicate business plan monthly, and all of the components of the insurance result and risk appetite quarterly. We look for opportunities outside the plan, and where appropriate may deviate from the plan in light of changing events or understanding of the risks being taken. Catastrophe modelling software is used to model maximum probable losses from catastrophe-exposed business and as part of the Realistic Disaster Scenario (RDS) process.

A significant proportion of the syndicate's business is written through delegated authorities. A dedicated Delegated Authorities Team monitor coverholder performance, carry out due diligence on new coverholders and manage regulatory requirements.

Reinsurance risk

The risk that reinsurance purchased to protect the gross account does not respond as intended due to, *inter alia*: mismatch with gross losses, poorly worded contracts, reinsurer counterparty risk or exhaustion of reinsurance limits.

Reinsurance is used to protect capital against underwriting risk volatility, either as a result of large catastrophes, or from the severity of losses on individual policies. Reinsurance security is overseen by the Reinsurance Security Committee.

Reserving risk

The risk of loss arising from claims reserves already in the balance sheet being understated, i.e. the risk that reserves are inadequate due to the inherent uncertainty of knowing the ultimate timing and quantum of liabilities incurred.

Claims provisions represent estimates, based on both the underwriters' informed knowledge and judgement and on the Internal Reserving Actuary's statistical projections, of the expectation of the ultimate settlement and administration costs of claims incurred. A variety of estimation techniques are used, generally based upon statistical analyses of historical loss development patterns, to assist in the establishment of appropriate claims reserves. Reserving for known catastrophes is assisted by use of the catastrophe modelling software.

In addition, the estimates are subject to independent review by external actuaries, who sign an annual Statement of Actuarial Opinion on the sufficiency of the reserves for the syndicate. Our policy is to reserve on a consistent basis with a reasonable margin for prudence, such that the syndicate is strongly reserved without being over-reserved.

Credit risk

The risk of loss if another party fails to meet its financial obligations, including failure to meet them in a timely manner.

We are exposed to three types of credit risk: reinsurer credit risk, broker/coverholder credit risk and investment credit risk. Credit exposure and aggregate exposure to reinsurers are managed by the Reinsurance Security Committee. It assesses, and is required to approve, all new reinsurers before business is placed with them, and it monitors the credit ratings of all reinsurers used. The performance of premium debtors, from brokers and coverholders, is monitored quarterly by the Credit Control Committee.

Market risk

The risk that arises from fluctuations in values of, or income from, assets, interest or exchange rates.

Investments are held as a result of underwriting activities either in premium trust funds or as capital support. The investment policy is set to protect the capital, and not to manage it as a separate profit centre. Funds managed by our investment managers are subject to set guidelines, and the on-going investment strategy and investment objectives that are agreed by the Investment Committee. These include the requirement for the prudent person principle as outlined in the Solvency II Directive text. Additionally, we meet regularly with the fund managers to review performance. The syndicate maintains a diversified investment portfolio to restrict the concentration of assets. The syndicate has no exposure to equity related investments and regular reviews are carried out to match requirements against liabilities by currency and duration.

Liquidity risk

The risk of the syndicate being unable to meet liabilities in a timely manner due to the lack of liquid resources.

To mitigate liquidity risk, the Finance Group reviews syndicate cash flow projections quarterly, and also stress tests them against RDSs. In the event of a catastrophe loss of a significant size, Syndicate 1880 has the ability to take advantage of Outstanding Claims Advances (OCAs) from its major reinsurers.

Agency risk

The risk that managers do not act in the best interests of their principal.

Tokio Marine Kiln Syndicates Limited is aware of its fiduciary responsibilities to capital providers across each of its four syndicates and is careful to ensure equity between them.

Operational risk

The risk that errors caused by people, processes or systems lead to losses to the managed syndicate.

We seek to manage this risk by the recruitment of high calibre staff and providing them with high quality training, and also through the use of a comprehensive risks and controls register. On a quarterly basis risks are reviewed with departmental heads responsible for identifying, assessing and controlling operational risks effectively.

There is a strong risk reporting and risk governance system in place to ensure effective risk management of operational risk. Management receives operational risk updates on a quarterly basis and the Audit, Risk and Compliance Committee reviews the operational risk profile bi-annually.

Regulatory risk

The risk of loss owing to a breach of regulatory requirements or failure to respond to regulatory change.

The managing agent is required to comply with the requirements of the Financial Conduct Authority (FCA), PRA and Lloyd's, including those imposed on the Lloyd's market by overseas regulators, particularly in respect of US Situs business. The Compliance function is responsible for monitoring compliance with regulation and monitoring of regulatory change. The compliance framework outlines the broad regulatory and compliance structure that applies to all staff.

2014 saw further progress on Solvency II implementation. All of the materials required by Lloyd's to evidence compliance with the Solvency II requirements have been delivered. Lloyd's have confirmed that they require no further information from us at this time, ahead of their Internal Model application which is expected sometime later in 2015. However until the results of this application are known, we cannot be certain of the capital position for future years.

The risk remains that the implementation of Solvency II, due to its sheer size and complexity could pose a challenge to our specialty insurance underwriting culture.

The nature of its business exposes the managing agent to controls and sanctions which regulate international trade. Processes and controls are in place to screen and monitor transactions against relevant requirements to assure compliance with them.

Conduct risk

The risk of financial and/or service detriment which adversely affects the customer due to failings in the customer value chain.

Our conduct objective is to build, maintain and enjoy long-term relationships with our customers whether it be directly or indirectly via a third party. This culture of partnership is fundamental to our dealings with our customers, and comes regardless of the complexity of the risk, the sophistication of the buyer, or the length of the supply chain to the end customer. The conduct objective is owned by the board and cascaded throughout the organisation. It is central in achieving delivery of the six Consumer Outcomes (as set out by the FCA), which are at the heart of our business.

The board aims to embed a culture, from the top down, where the conduct risk arising from the execution of the business plan and strategy is appropriately monitored and managed to ensure good outcomes for all our customers. The management of conduct risk applies to all business, regardless of product lines and customer types, across both open market and delegated underwriting and is achieved through the application of the conduct risk framework. The framework is applied in a proportionate, risk based way which takes account of the different inherent conduct risk across products, distribution and customer types.

The underwriters, with the support of the Delegated Authority Team, take day to day ownership of conduct risk as they are the ones empowered to make decisions which commit us to relationships with our customers and business partners. Conduct risk and our treatment of customers is managed and monitored by the Conduct Risk Committee, a sub-committee of the board, which reports up to the board quarterly.

Reputational risk

Reputational risk is the risk that negative publicity regarding an institution's business practices will lead to a loss of revenue or litigation. In the modern digital era, reputational risk and the subsequent threat to our strong brand is becoming more significant. Loss of confidence from customers, regulators or capital providers could cause long term harm to the business.

All staff are made aware of their responsibilities to clients and other stakeholders.

Emerging risk

An emerging risk is 'an issue that is perceived to be potentially significant but which may not be fully understood or allowed for in insurance terms and conditions, pricing, reserving or capital setting.'

We are committed to the continual research and identification of emerging risks and actively undertake research independently, and via Lloyd's as a representative on the Lloyd's Emerging Risks Special Interest Group. Through the effective management of emerging risks we are able to identify external trends and threats, and improve risk selection and knowledge of future risk exposures. Emerging risks may present both threats and opportunities to the business and as it has done in the past, we will readily seize opportunities arising in the area of emerging risks.

Integration risks

Kiln and Tokio Marine Europe formed a joint operation in 2014 under Tokio Marine Kiln Group and now operate from the same premises with combined management and operational functions, while remaining distinct legal and underwriting entities. Overall the integration has progressed smoothly but risks still remain – predominantly that the management team find themselves overstretched and are unable to devote enough time and attention to their syndicate duties.

Management are aware of this potential issue and look to manage their time effectively which combined with new senior level hires will help mitigate this risk.

Future business risk

The risk that future earnings are lower or more volatile than expected. This could be as a result of a number of causes:

- The cyclical nature of insurance business with fluctuations in capacity, competition and the frequency and severity of losses, as a result of both man-made and natural disasters.
- The result of competition which can cause rates to vary sharply in the short-term.
- The lack of reinsurance or retrocession availability.
- Actual claims may exceed claims provisions.
- The flow of new business may be affected by any changes in the syndicate's ratings, either stand-alone rating from A.M. Best, or the overall Lloyd's credit rating.
- Distribution channels: the syndicates are heavily dependent on brokers.
- The syndicate may be affected by litigation on insurance policy wordings; e.g. exclusion clauses.
- Severe and rapid exchange rate fluctuations.
- Regulatory or compliance changes.
- Reputational damage as a result of real or perceived negligence or malpractice.

These risks can be mitigated to a reasonable extent by maintaining good underwriting discipline, but are ultimately outside management control.

Directors

The directors of the managing agent who served during the year ended 31 December 2014 are reported under the section 'Directors, Active Underwriter and administration' on page 2.

Disclosure of information to the auditors

As far as each person who was a director of the managing agent at the date of approving this report is aware, there is no relevant audit information, which is information needed by the auditors in connection with their report, of which the auditors are unaware. Having made enquiries of fellow directors of the managing agent and the syndicate's auditors, each director has taken all the steps that they are obliged to take as a director in order to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

Reappointment of auditors

The Board approved the reappointment of PricewaterhouseCoopers LLP as auditors for the current year and on an ongoing basis for the managed syndicates, managing agent and other Tokio Marine Kiln Group entities.

Approved by the Board of directors

Fiona Molloy

Company Secretary

Tokio Marine Kiln Syndicates Limited

16 March 2015

Statement of managing agent's responsibilities

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

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ('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 United Kingdom accounting standards have been followed, subject to any material departures disclosed and explained in the annual accounts; and
- prepare the annual accounts on the basis that the syndicate will continue to write future business unless it is inappropriate to presume that the syndicate will do so.

The managing agent is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the syndicate and enable it to ensure that the syndicate annual accounts comply with the 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 its website. Legislation in the United Kingdom governing the preparation and dissemination of annual accounts may differ from legislation in other jurisdictions.

The directors of the managing agent confirm that they have complied with the above requirements in preparing the annual accounts.

Independent auditors' report to the member of Syndicate 1880 - Report on the syndicate annual accounts

Our opinion

In our opinion the syndicate annual accounts, defined below:

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2014 and of its profit and cash flows 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.

What we have audited

The syndicate annual accounts for the year ended 31 December 2014, which are prepared by the managing agent, comprise:

- the profit and loss account for the year then ended;
- the balance sheet as at 31 December 2014;
- the cash flow statement; and
- the statement of accounting policies; and
- the notes to the syndicate annual accounts, which include other explanatory information.

The financial reporting framework that has been applied in the preparation of the syndicate annual accounts is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the managing agent has made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on matter prescribed by The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008

In our opinion the information given in the managing agent's report for the financial year for which the syndicate annual accounts are prepared is consistent with the syndicate annual accounts.

Other matters on which we are required to report by exception

Under The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- the managing agent in respect of the syndicate has not kept adequate accounting records; or
- the syndicate annual accounts are not in agreement with the accounting records.

We have no exceptions to report arising from this responsibility.

Responsibilities for the syndicate annual accounts and the audit – our responsibilities and those 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 syndicate annual accounts and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the syndicate annual accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland) (ISAs (UK & Ireland)). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the syndicate's member in accordance with section 10 of part 2 of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of syndicate annual accounts involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the syndicate annual accounts sufficient to give reasonable assurance that the syndicate annual accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the syndicate's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the managing agent; and
- the overall presentation of the syndicate annual accounts.

We primarily focus our work in these areas by assessing the managing agent's judgements against available evidence, forming our own judgements, and evaluating the disclosures in the syndicate annual accounts.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited syndicate annual accounts and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Mark Bolton

Senior Statutory Auditor

For and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

London

16 March 2015

Profit and loss account: technical account - general business for the year ended 31 December 2014

		2014	2013
	Note	£'000s	£'000s
Earned premiums, net of reinsurance			
Gross premiums written	2	146,974	236,974
Outward reinsurance premiums		(23,635)	(57,721)
Net premiums written		123,339	179,253
Change in the gross provision for unearned premiums:			
Gross amount		20,534	(4,381)
Reinsurers' share		4,015	521
Change in the net provision for unearned premiums		24,549	(3,860)
Earned premiums, net of reinsurance		147,888	175,393
Allocated investment return transferred from the non-technical account		1,386	2,150
Claims incurred, net of reinsurance			
Claims paid:			
Gross amount		(108,390)	(103,435)
Reinsurers' share		17,171	19
Net claims paid		(91,219)	(103,416)
Change in the provision for claims:			
Gross amount		45,511	84,624
Reinsurers' share		(16,221)	(10,068)
Change in the net provision for claims		29,290	74,556
Claims incurred, net of reinsurance		(61,929)	(28,860)
Member's standard personal expenses		(3,995)	(5,038)
Net operating expenses	4,5,6	(44,133)	(51,851)
Balance on the technical account for general business		39,217	91,794

All operations are continuing.

Profit and loss account: non-technical account for the year ended 31 December 2014

		2014	2013
	Note	£'000s	£'000s
Balance on the general business technical account		39,217	91,794
Investment income	7	3,844	5,874
Investment expenses and charges	7	(1,075)	(1,905)
Net unrealised losses on investments	7	(892)	(1,420)
Allocated investment return transferred to the general business technical account	7,8	(1,386)	(2,150)
Profit for the financial year		39,708	92,193

There are no recognised gains or losses in the accounting period other than those dealt with in the technical and non-technical accounts.

Balance sheet: assets as at 31 December 2014

		2014	2013
	Note	£'000s	£'000s
Investments			
Other financial investments	9	203,230	205,669
Reinsurers' share of technical provisions			
Provision for unearned premiums		4,536	521
Claims outstanding	3	23,587	38,340
		28,123	38,861
Debtors			
Debtors arising out of direct insurance operations	10	39,151	38,145
Debtors arising out of reinsurance operations		65,824	102,413
Other debtors		1,663	724
		106,638	141,282
Other assets			
Cash at bank and in hand		1,776	2,159
Other	11	7,821	7,817
		9,597	9,976
Prepayments and accrued income			
Deferred acquisition costs		17,417	20,816
Other prepayments and accrued income		284	55
		17,701	20,871
Total assets		365,289	416,659

Balance sheet: liabilities as at 31 December 2014

		2014	2013
	Note	£'000s	£'000s
Capital and reserves			
Member's balances	12	97,671	120,061
Technical provisions			
Provision for unearned premiums		75,523	96,057
Claims outstanding	3	133,700	174,135
		209,223	270,192
Creditors			
Creditors arising out of direct insurance operations	13	4,069	4,499
Creditors arising out of reinsurance operations	14	50,780	19,373
Other creditors	15	2,420	2,380
		57,269	26,252
Accruals and deferred income			
Other accruals and deferred income		1,126	154
Total liabilities		365,289	416,659

The annual accounts, which comprise pages 13 to 36 and include the notes and principal accounting policies, were approved by the Board of Tokio Marine Kiln Syndicates Limited on 11 March 2015 and were signed on its behalf by

James Dover

Finance Director

Tokio Marine Kiln Syndicates Limited

16 March 2015

Cash flow statement for the year ended 31 December 2014

		2014	2013
	Note	£'000s	£'000s
Net cash inflow/(outflow) from operating activities	16	50,491	(22,770)
Transfers to member in respect of underwriting participations	12	(104,662)	(1,622)
Net cash inflow to/(outflow) from Funds in Syndicate	12	42,564	(5,000)
Net cash flows		(11,607)	(29,392)
Cash flows were invested as follows:			
Decrease in cash holdings	17	(383)	(4,557)
Decrease in deposits	17	(23)	(995)
Net portfolio investments	17,18	(11,201)	(23,840)
Net investment of cash flows		(11,607)	(29,392)

Notes to the accounts and principal accounting policies as at 31 December 2014

1. Accounting policies

a) Basis of preparation

These annual accounts have been prepared in accordance with Regulation 5 of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and applicable Accounting Standards in the United Kingdom and comply with the Statement of Recommended Practice on Accounting for Insurance Business issued in December 2005 (as amended in December 2006) by the Association of British Insurers, as applicable, with the exception of foreign exchange that is recognised in the technical account. The general business results are determined on the annual basis of accounting.

b) Funds at Lloyd's and Funds in Syndicate

Every member is required to hold capital in trust to cover circumstances where syndicate assets prove insufficient to meet participating members' underwriting liabilities. Capital is either held centrally at Lloyd's and known as Funds at Lloyd's (FAL) or held within the syndicate and known as Funds in Syndicate (FIS).

The level of FAL or FIS that Lloyd's requires a member to maintain is determined by Lloyd's based on PRA requirements and resource criteria. FAL and FIS have 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.

FIS assets and the corresponding liability to the aligned corporate member are incorporated within the syndicate's balance sheet. Any investment return on FIS assets is recorded and retained within the non-technical account and can only be distributed following a release test.

FAL assets are not recorded within the annual accounts as they are not under the management of the syndicate or managing agent; however they are callable in the event of a liquidity requirement or loss settlement obligation.

c) Premiums written

Inwards premiums written comprise premiums on contracts incepting during the financial year as well as adjustments made in the year to premiums on contracts incepting in prior accounting periods. Premiums in respect of insurance contracts underwritten under a binding authority, line slip or consortium arrangement are allocated to the financial year of inception of the arrangement. Premiums are shown gross of brokerage payable and exclude taxes and duties levied on them. Estimates are made for pipeline premiums, representing the difference between the written and signed premium, this difference is held on the balance sheet as an asset.

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

d) Earned premiums

Inwards and outwards earned premium represents the amount of written premium deemed to have been exposed to loss according to defined earnings patterns. The provision for unearned premium comprises the proportion of premiums written which are estimated to be earned after the balance sheet date.

Reinstatement premiums arise on both inwards and outwards policies when a loss has been incurred on a policy and there is a clause which requires the reinstatement of the policy with the payment of a further premium by the policyholder. They are recognised as written and earned in full at the date of the event giving rise to the reinstatement premium. Outwards reinstatement premiums payable in the event of a claim being made are charged to the same year of account as that to which the recovery is credited.

e) 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 and adjustments to claims outstanding from previous years.

Provision is made at the year-end for the estimated cost of claims incurred but not settled at the balance sheet date, including outstanding claims estimated on a case by case basis and also the cost of claims Incurred But Not Reported (IBNR). The estimated cost of claims includes expenses to be incurred in settling claims. All reasonable steps are taken to ensure that the appropriate information regarding claims exposures is obtained. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established. All claims provisions are reported on an undiscounted basis.

The estimation of claims IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the syndicate, where more information about the claim event is generally available. Claims IBNR may often not be apparent to the insurer until many years after the event giving rise to the claim has occurred. Classes of business where the IBNR proportion of the total reserves is high will typically display greater variations between initial estimates and final outcomes because of the greater degree of difficulty of estimating these reserves. Classes of business where claims are typically reported relatively quickly after the claim event tend to display lower levels of volatility. In calculating the estimated cost of unpaid claims a variety of estimation techniques are used, generally based upon statistical analyses of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience.

Allowance is made however, for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims including:

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

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

Large claims affecting each relevant business class are generally assessed separately, either measured on a case by case basis or projected separately, in order to allow for the possible distorting effect of the development and incidence of these large claims.

Where possible, multiple techniques are adopted in order to estimate the required level of provisions. This assists in giving greater understanding of the trends inherent in the data being projected. The projections given by the various methodologies also assist in setting the range of possible outcomes. The most appropriate estimation technique is selected taking into account the characteristics of the business class and the extent of the development of each accident year. The amount of salvage and subrogation recoveries is separately identified and, where material, reported as an asset.

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. Adjustments to the amounts of claims

provisions established in prior years are reflected in the annual accounts for the period in which the adjustments are made. The methods used, and the estimates made, are reviewed regularly.

Provisions are calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts that will be recoverable from reinsurers based upon the gross provisions and having due regard to collectability.

An estimate of the future cost of indirect claims handling is calculated as a percentage of the gross claims reserves held at the balance sheet date.

Syndicate 1880 writes reinsurance, property, construction, engineering, accident and health, marine, liability and aviation business. These business areas are predominantly short tail, in that there is not a significant delay between the occurrence of the claim and the claim being reported. The costs of claims notified to the syndicate at the balance sheet date are estimated on a case by case basis to reflect the individual circumstances of each claim. The ultimate expected cost of claims is projected from this data by reference to statistics which show how estimates of claims incurred in previous periods have developed over time to reflect changes in the underlying estimates of the cost of notified claims and late notifications.

f) Provision for unexpired risks

Provision is made for any deficiencies arising when unearned premiums, net of associated acquisition costs, are insufficient to meet expected claims and expenses after taking into account future investment return on the investments supporting the unearned premiums provision. The expected claims are calculated having regard only to events that have occurred prior to the balance sheet date. The need for an unexpired risk provision is assessed on a 'managed together' basis. Unexpired risk surpluses and deficits are offset where business classes are managed together and a provision is made if an aggregate deficit arises.

g) Acquisition costs

Acquisition costs, comprising commission and other costs related to the acquisition of new insurance contracts are deferred to the extent that they are attributable to premiums unearned at the balance sheet date. Where inwards business is ceded to an outwards proportional reinsurance treaty, an estimate of the relevant proportion of the inwards acquisition costs is calculated and deferred in line with the outwards unearned premium at the balance sheet date.

Deferred acquisition costs are reviewed by category of business at the end of each reporting period and are written off where they are no longer considered to be recoverable.

h) Foreign currencies

Functional currency

Items included in the annual accounts are measured using the currency of the primary economic environment in which the syndicate operates (the functional currency). The annual accounts are presented in pounds sterling which is also the functional currency of the syndicate.

Transactions and balances

Foreign currency transactions are recorded in the functional currency using the exchange rates prevailing at the dates of the transactions or an appropriate average rate of exchange. Foreign exchange gains and losses resulting from the settlement of monetary items relating to such transactions and from the measurement at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Non-monetary assets such as unearned premium reserves and deferred acquisition costs are recorded in the balance sheet at the exchange rate prevailing at the date of the original transaction (i.e. inception date of the related insurance policy).

Exchange rates used are as follows:

	Average rate		Year-end rate	
	2014	2013	2014	2013
US dollar	1.65	1.56	1.56	1.66
Canadian dollar	1.82	1.61	1.81	1.76

The distributable result on closing a year of account, usually at 36 months, is calculated using the exchange rates prevailing at the date of closure. The selection of an average exchange rate or transaction rate in the intervening period under annual accounting has no effect on the amount to be distributed to the member at the closure of the year of account.

i) Investments

The syndicate classifies its financial assets into 'shares and other variable-yield securities' and 'debt securities and other fixed-income securities' – all at fair value through profit or loss. Management determines the classification of its investments at initial recognition and re-evaluates this at every reporting date.

A financial asset is classified as fair value through profit or loss at inception if it is acquired principally for the purpose of selling in the short-term, if it forms part of a portfolio of financial assets in which there is evidence of short-term profit-taking, or if so designated by management to minimise any measurement or recognition inconsistency with the associated liabilities.

Financial assets designated as at fair value through profit or loss at inception are those that are managed and whose performance is evaluated on a fair value basis. Information about these financial assets is provided internally on a fair value basis to key management personnel. The investment strategy is to invest in listed government and corporate bonds, fixed interest rate debt securities and derivatives designated upon initial recognition as fair value through profit or loss.

The fair values of financial instruments traded in active markets are based on quoted bid prices at the balance sheet date, and include interest accrued at that date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Net gains or losses arising from changes in the fair value of financial assets at fair value through profit or loss are presented in the profit and loss account within 'unrealised gains on investments' or 'unrealised losses on investments' in the period in which they arise.

j) Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value are recognised immediately in the profit and loss account. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

k) Investment return

Investment return comprises all investment income, realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses, charges and interest. Realised gains and losses on investments carried at fair value through profit or loss are calculated as the difference between sale proceeds and the purchase price. 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.

Investment return on general business is initially recorded in the non-technical account and subsequently transferred to the technical account. Investment return on FIS assets is recorded and retained within the non-technical account and can only be distributed following a release test.

l) Investment yield

The calendar year investment yield is calculated as the ratio of 'aggregate investment return' to 'average funds available', expressed as a percentage. 'Aggregate investment return' is the total amount of net appreciation, investment income and accrued interest received during the year, after deducting investment management costs but before deducting tax. Average funds available is the average value of all investments (including accrued interest), deposits and surplus cash at the beginning of the year and at each month end revalued at market prices.

m) Taxation

Under Schedule 19 of the Finance Act 1993 the syndicate does not pay UK taxation, its profit being allocated and assessed to tax on its member in direct proportion to its capacity.

The syndicate pays various overseas direct and premium based taxes, the majority of which is allocable to its member and can be claimed by the member either as double tax relief or as an expense against its tax liability.

n) Profit commission

Profit commission is charged by the managing agent at a rate of 12.5% subject to the operation of a two year deficit clause. The syndicate's profit commission is calculated after the deduction of a 5% segmental profit share payable to underwriting staff, again subject to the operation of a segmental two year deficit clause. Profit commission is estimated on an ultimate basis for each year of account, and accrued by the syndicate based on the interim annual accounting results of the year of account under UK GAAP. Final settlement to the managing agent is made when the year of account closes; normally at 36 months. Segmental profit share does not become payable until after the appropriate year of account closes; normally at 36 months.

2. Segmental analysis

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

Year ended 31 December 2014	Gross premiums written £'000s	Gross premiums earned £'000s	Gross incurred claims £'000s	Gross operating expenses £'000s	Reinsurance balance £'000s	Total £'000s	Net technical provisions £'000s
Direct insurance:							
Accident and health	4,157	4,563	(3,636)	(1,947)	(66)	(1,086)	3,760
Marine, aviation and transport	4,609	4,953	(5,372)	(448)	(144)	(1,011)	10,353
Fire and other damage to property	79,065	78,862	(26,664)	(27,364)	(5,922)	18,912	96,170
Third party liability	3,562	2,787	37	(455)	(1,154)	1,215	729
	91,393	91,165	(35,635)	(30,214)	(7,286)	18,030	111,012
Reinsurance acceptances	55,581	76,343	(27,244)	(18,394)	(10,904)	19,801	70,088
	146,974	167,508	(62,879)	(48,608)	(18,190)	37,831	181,100

Year ended 31 December 2013	Gross premiums written £'000s	Gross premiums earned £'000s	Gross incurred claims £'000s	Gross operating expenses £'000s	Reinsurance balance £'000s	Total £'000s	Net technical provisions £'000s
Direct insurance:							
Accident and health	4,004	3,077	(1,543)	(1,214)	(112)	208	3,217
Marine, aviation and transport	2,655	2,515	(3,090)	615	(164)	(124)	7,225
Fire and other damage to property	83,326	79,220	(29,058)	(24,696)	(11,205)	14,261	85,422
Third party liability	(2,138)	(2,226)	(660)	(352)	(521)	(3,759)	924
	87,847	82,586	(34,351)	(25,647)	(12,002)	10,586	96,788
Reinsurance acceptances	149,127	150,007	15,540	(31,645)	(54,844)	79,058	134,543
	236,974	232,593	(18,811)	(57,292)	(66,846)	89,644	231,331

All premiums were concluded in the UK.

The total commission payable on direct business was £24,482,824 (2013: £23,483,933).

The geographical analysis of premium by location of the client is as follows:

	2014 £'000s	2013 £'000s
UK	(47,583)	140,883
Other EU countries	15,419	22,285
US	114,954	52,149
Other	64,184	21,657
	146,974	236,974

3. Claims outstanding

Within the calendar year technical result, a surplus of £8.3m (2013: £71.6m) relates to the reassessment of net claims incurred for previous accident years. Of the prior year surplus, US\$104.1m and £0.2m related to the release of reserves on Thai Floods.

The following table shows the development of ultimate claims (after reinsurance recoveries) over the last six years. The claims development table is prepared on an underwriting year of account basis, and all figures are shown converted at current year-end rates.

Year of Account	2009 £m	2010 £m	2011 £m	2012 £m	2013 £m	2014 £m
Year 1	55.4	105.4	551.7	158.3	116.0	92.1
Year 2	60.4	260.9	514.9	140.1	91.9	
Year 3	50.4	240.2	457.9	135.9		
Year 4	49.1	228.1	452.6			
Year 5	47.9	224.8				
Year 6	47.1					
Claims paid	46.0	218.9	459.8	110.0	44.7	4.0
Future claims	-	-	-	-	8.1	43.4
Outstanding claims reserve	1.1	5.9	(7.2)	25.9	39.1	44.7

4. Net operating expenses

	2014 £'000s	2013 £'000s
Acquisition costs	31,982	49,547
Change in deferred acquisition costs	3,426	(5,944)
Administrative expenses	10,990	10,073
(Profit) on exchange	(1,785)	(1,422)
Gross operating expenses	44,613	52,254
Reinsurance commissions receivable	(480)	(403)
	44,133	51,851

Included within administrative expenses is auditors' remuneration:

	2014 £'000s	2013 £'000s
Audit services:		
Fees payable to the syndicate's auditors for the audit of the syndicate annual accounts	57	52
Other services:		
Other services pursuant to legislation	59	55
	116	107

The charge incurred for other services are wholly and exclusively in relation to the audit and review of the syndicate's regulatory returns.

5. Staff numbers and costs

Staff are employed by Tokio Marine Kiln Insurance Services Limited. The following amounts were recharged to the syndicate in respect of salary costs and are included within administrative expenses:

	2014	2013
	£'000s	£'000s
Wages and salaries	3,922	4,241
Social security costs	445	479
	4,367	4,720

Of this amount £58,372 (2013: £39,985) was paid as consulting fees to other Tokio Marine Group companies in respect of staff working on the syndicate with the remainder recharged to the syndicate by Tokio Marine Kiln Insurance Services Limited.

The average number of full-time employees working for the syndicate during the year was as follows:

	2014	2013
Administration and finance	25	23
Underwriting	14	14
Claims	5	5
	44	42

Where staff work for more than one syndicate, the time is allocated based on the proportion of time spent. The relevant percentage of full-time employees is applied in the table above. Of this number, 43 (2013: 40) are employed by Tokio Marine Kiln Insurance Services Limited and the remainder by other Tokio Marine Group companies.

6. Emoluments of the directors and Active Underwriter

The Tokio Marine Kiln Group of companies operate a bonus pooling arrangement such that profit-related pay is generated from the managing agency profit commission, the group's share of the underwriting result through its corporate member Kiln Underwriting Limited, and additionally through a proportion of the underwriting result of the corporate member Tokio Marine Underwriting Limited whose participations are managed by Tokio Marine Kiln Syndicates Limited. A considerable portion of the profit-related pay is therefore borne by other Tokio Marine Kiln Group entities. The directors of Tokio Marine Kiln Syndicates Limited received the following aggregate remuneration in relation to their work on the syndicate:

	2014	2013
	£'000s	£'000s
Emoluments	335	437

Of the above amount £173,381 (2013: £242,250) was charged to the syndicate as an expense, with the remainder borne by other group entities.

The Active Underwriter received the following remuneration charged as a syndicate expense:

	2014	2013
	£'000s	£'000s
Emoluments	52	29

The profit commission included within the emoluments is in relation to the 2011 year of account (2013: 2010 YOA), as the allocation to underwriters was only determined following its closure.

7. Investment income and expenses

	2014	2013
	£'000s	£'000s
Investment income:		
Income from investments	3,602	5,630
Realised gains on investments	242	244
Unrealised gains on investments	160	148
Investment expenses:		
Investment management expenses, including interest	(210)	(222)
Realised losses on investments	(865)	(1,683)
Unrealised losses on investments	(1,052)	(1,568)
	1,877	2,549

The above figures include £491,078 (2013: £399,074) of investment income earned on cash and investments deposited into the syndicate by Tokio Marine Underwriting Limited as FIS.

8. Calendar year investment yield

	2014	2013
	£'000s	£'000s
Average amount of syndicate funds during the year:		
Sterling fund	32,939	46,651
US dollar fund	155,492	183,886
Canadian dollar fund	11,700	12,629
Aggregate gross investment return:		
Before investment expenses	2,087	2,771
After investment expenses	1,877	2,549
Calendar year investment yield:	%	%
Before investment expenses	1.0	1.1
After investment expenses	0.9	1.0
Analysis of calendar year investment yield by fund:	%	%
Sterling fund	1.2	1.5
US dollar fund	0.9	0.9
Canadian dollar fund	1.3	2.0

The sterling fund balance includes investments held in all other non-functional currencies.

9. Other financial investments

	Fair value		Purchase price	
	2014	2013	2014	2013
	£'000s	£'000s	£'000s	£'000s
Shares and other variable yield securities	19,414	28,699	19,414	28,699
Debt securities and other fixed income securities	183,618	176,825	183,882	176,824
Other investments	198	145	-	15
	203,230	205,669	203,296	205,538

All financial instruments are designated as fair value through profit or loss upon initial recognition.

Other investments are comprised of forward currency contracts and at 31 December 2013 included a futures initial margin fund.

The syndicate manages the foreign exchange risks posed by writing insurance policies in certain regions by using forward currency contracts. The total notional value of these contracts at 31 December 2014 was £7,174,494 (2013 £16,759,586).

10. Debtors arising out of direct insurance operations

	2014	2013
	£'000s	£'000s
Amounts due from intermediaries within one year	39,102	38,084
Amounts due from intermediaries after one year	49	61
	39,151	38,145

11. Other assets

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

12. Reconciliation of member's balances

	2014	2013
	£'000s	£'000s
Member's balances at 1 January	120,061	41,142
Profit for the financial year	39,708	92,193
Payments of profit to member's personal reserve funds	(104,662)	(1,622)
Funds in Syndicate	42,564	(5,000)
Exchange differences arising on member's balances	-	(6,652)
Member's balances carried forward at 31 December	97,671	120,061

The member participates on the syndicate by reference to years of account and ultimate results, assets and liabilities are assessed with reference to policies incepting in that year of account in respect of its membership of a particular year.

13. Creditors arising out of direct insurance operations

	2014	2013
	£'000s	£'000s
Amounts due to intermediaries within one year	4,020	4,498
Amounts due to intermediaries after one year	49	1
	4,069	4,499

14. Creditors arising out of reinsurance operations

Included within creditors arising out of reinsurance operations is a balance of £28.2m which relates to a US\$44m repayment of a loss fund that was no longer required relating to the Thai Flood event in 2011. As at 31 December 2014 cash had been received into the syndicate, however the corresponding signing for the claims refund was not processed until January 2015.

15. Other creditors

Included within other creditors are balances relating to the derivative financial instruments:

	2014	2013
	£'000s	£'000s
Forward currency contracts – held to maturity	23	52
	23	52

The syndicate manages the foreign exchange risks posed by writing insurance policies in certain regions by using forward currency contracts. The total notional value these contracts at 31 December 2014 was £19,112,846 (2013: £41,783,368). The above balances are stated at fair value.

16. Reconciliation of operating profit to net cash inflow from operating activities

	2014	2013
	£'000s	£'000s
Operating profit for the financial year	39,708	92,193
Realised and unrealised investment (gains)/losses including foreign exchange	(8,789)	7,708
Decrease/(increase) in debtors	37,814	(50,790)
Decrease in net technical provisions	(50,231)	(72,077)
Increase in creditors	31,989	6,848
Exchange gains arising on member's balances	-	(6,652)
Net cash inflow/(outflow) from operating activities	50,491	(22,770)

17. Movement in opening and closing portfolio investments net of financing

	2014	2013
	£'000s	£'000s
Net cash (outflow) for the year	(383)	(4,557)
Cash flow:		
Deposits	(23)	(995)
Portfolio investments	(11,201)	(23,840)
Movement arising from cash flows	(11,607)	(29,392)
Changes in market value and exchange rates	8,789	(7,708)
Total movement in portfolio investments	(2,818)	(37,100)
Portfolio at 1 January	215,645	252,745
Portfolio at 31 December	212,827	215,645

Movement in cash, portfolio investments and financing

	At 1 January 2014 £'000s	Cash Flow £'000s	Changes to market value and exchange rates £'000s	At 31 December 2014 £'000s
Cash at bank and in hand	2,159	(383)	-	1,776
Shares and other variable yield securities	28,699	(10,681)	1,396	19,414
Debt securities and other fixed income securities	176,825	(572)	7,365	183,618
Other investments	145	52	1	198
Total portfolio investments	205,669	(11,201)	8,762	203,230
Overseas deposits	7,817	(23)	27	7,821
Total cash, portfolio investments and financing	215,645	(11,607)	8,789	212,827

The syndicate writes business in certain jurisdictions that require the deposit of cash and investments in locally held trust funds therefore preventing the free transfer of cash between currencies and locations. The total held in these funds at 31 December 2014 was £85,429,808 (2013: £93,098,740).

18. Net cash inflow from portfolio investments

	2014	2013
	£'000s	£'000s
Shares and other variable yield securities	10,681	(14,502)
Purchase of debt securities and other fixed income securities	(264,819)	(210,672)
Sale of debt securities and other fixed income securities	265,391	248,860
Other investments	(52)	154
Net cash inflow from portfolio investments	11,201	23,840

19. Related parties

The ultimate parent company of Tokio Marine Kiln Syndicates Limited is Tokio Marine Holdings, Inc. incorporated in Japan, which is also the ultimate parent company of Tokio Marine Underwriting Limited, the corporate member of Syndicate 1880. A copy of the consolidated accounts is available from the registered office of Tokio Marine Holdings, Inc. at Tokio Marine Nichido Building Shinkan, 1-2-1 Marunouchi, Chiyoda-ku, Tokyo, 100-0005, Japan. Syndicate 1880 accepted inwards reinsurance business from, and placed outwards reinsurance with, other Tokio Marine Group entities, including Syndicate 510, that are deemed to be related parties of Tokio Marine Kiln Syndicates Limited by virtue of the shareholding in Tokio Marine Kiln Group Limited, the parent of Tokio Marine Kiln Syndicates Limited, by Tokio Marine Holdings, Inc. All transactions between these entities were conducted at arm's length and on normal commercial terms.

For the 2009 to 2013 years of account, Syndicate 1880 underwrote two surplus treaties protecting the Property, Reinsurance and Accident & Health divisions of Syndicate 510. On 1 January 2014, a premiums and claims portfolio transfer was performed in respect of these treaties to transfer all remaining unpaid liabilities on the 2013 and prior years of account from Syndicate 1880 to Tokio Marine & Nichido Fire Insurance Co., Ltd.

The portfolio transfer has resulted in an outflow of premium during the calendar year to related parties of £12,344,827 (2013: inflow of £78,524,404). Adjustments to reinstatement premium resulted in an inflow of outwards reinsurance premiums ceded of £43,387 (2013: outflow of £52,836,836). Claims paid to related parties during 2014 were £44,262,558 (2013: £11,760,490). Outstanding claims, including an element of IBNR, were £22,594,259 (2013: £55,769,175) and reinsurance recoveries were £23,587,483 (2013: £38,339,495).

Treaty profit commission paid to related parties for the 2014 calendar year was £1,720,216 (2013: £44,827) and £110,482 of treaty profit commission was payable as at the balance sheet date (2013: £3,238,730).

The syndicate receives business through the following service companies whose investments are held ultimately by the managing agent: Tokio Marine Kiln Hong Kong Limited (100% owned) and Tokio Marine Kiln Singapore Pte Limited (100% owned).

The syndicate also receives business through Kiln Europe S.A. which is 100% owned by Tokio Marine Kiln Group Limited, WNC Insurance Services, Inc., whose parent WNC Holding Company, LP is 49% owned by Tokio Marine Kiln Group Limited and NAS Insurance Services, Inc. which is 49% owned by Tokio Marine Kiln Group Limited. Profit commission on inwards business of £394,099 was paid to related parties for the 2014 calendar year (2013: nil) and £1,783,417 of profit commission was payable as at the balance sheet date (2013: £893,413).

Profit commission of £1,020,717 is payable by the syndicate to Tokio Marine Kiln Syndicates Limited in respect of the 2014 calendar year (2013: £1,084,961). Profit commission is accrued by the syndicate based on the interim annual accounting results of each year of account under UK GAAP, and final settlement to the managing agent is paid when the year of account is closed after three years.

Managing agency fees of £2,700,000 (2013: £2,700,000) were paid by the syndicate to Tokio Marine Kiln Syndicates Limited. In addition to this, expenses of £9,678,050 (2013: £8,906,743) were paid to Tokio Marine Kiln Syndicates Limited for expenses paid on behalf of the syndicate.

20. Risk management

Details of the syndicate's risk management framework are given in the 'principal risks and uncertainties section' on pages 5 to 8.

(a) Insurance risk

Further details on the management of the syndicate's insurance risk are given on page 5.

Concentrations of insurance risk

The risks assumed in the syndicate's day-to-day business activities are subject to controls over aggregation of risk. Concentration of risk is monitored by line of business, geographical location and credit quality amongst other elements.

The following tables set out the concentration of gross claims provision and reinsurance recoveries by line of business and the concentration of gross claims provision by geographical location.

	Gross claims provision	Reinsurance claims provision	Net claims provision
2014	£'000s	£'000s	£'000s
Direct insurance:			
Accident and health	1,822	-	1,822
Marine, aviation and Transport	6,243	-	6,243
Fire and other damage to property	59,323	(7,304)	52,019
Third party liability	510	-	510
	67,898	(7,304)	60,594
Reinsurance acceptances	65,802	(16,283)	49,519
	133,700	(23,587)	110,113

	Gross claims provision	Reinsurance claims provision	Net claims provision
2013	£'000s	£'000s	£'000s
Direct insurance:			
Accident and health	948	-	948
Marine, aviation and Transport	2,792	-	2,792
Fire and other damage to property	49,536	(10,436)	39,100
Third party liability	628	-	628
	53,904	(10,436)	43,468
Reinsurance acceptances	120,231	(27,904)	92,327
	174,135	(38,340)	135,795

	2014	2013
	£'000s	£'000s
UK	18,751	36,773
Other EU countries	10,561	14,997
US	74,276	87,649
Other	30,112	34,716
Gross claims provision	133,700	174,135

Earned premium sensitivity analysis

Earned premium is estimated based on assumptions of how each risk is earned according to its method of placement and class of business. Each risk falling within a class of business is earned according to the estimated pattern applying to that class of business, which takes into account the class characteristics including exposure to seasonal weather related events. This approach is applied consistently year-on-year.

A sensitivity analysis has been applied by adjusting the percentage earned of each open year of account by 1%. This indicates that an increase in earned premium of 1% would result in £1.7m (2013: £2.3m) more premium being reported (gross of acquisition costs), and applying the underlying attritional loss ratio would result in an estimated increase in the net result (after acquisition costs) of £0.5m (2013: £0.7m). A decrease of 1% would result in £1.7m (2013: £2.3m) less premium being reported and an estimated £0.5m (2013: £0.7m) reduction in the net result. The impact on the result is at the net level i.e. after the adjustment for the effect of profit commission.

Claims sensitivity analysis

The claims ratio for 2014 is 42% (2013: 16%). A sensitivity analysis has been applied by adjusting the claims ratio by 1%. This indicates that an increase in the claims ratio of 1% would result in claims increasing by £1.5m (2013: £1.8m) and the result reducing by £1.2m (2013: £1.8m).

(b) Financial risk

The syndicate is exposed to a range of financial risks through its financial assets and financial liabilities. In particular, the key financial risk is that the proceeds from financial assets are not sufficient to fund the obligations arising from insurance policies and investment contracts as they fall due. The most important components of this financial risk are credit risk, liquidity risk and market risk (including interest rate risk and currency risk).

These risks arise from open positions in interest rate and currency products, all of which are exposed to general and specific market movements. The risks that the syndicate primarily faces due to the nature of its investment and liabilities are interest rate risk and currency risk.

Credit risk

For details of the management of the syndicate's credit risk please refer to page 6.

The following table provides information regarding credit risk exposures of the syndicate by classifying assets according to the S&P credit ratings of the counterparties. Where a security has no S&P credit rating the rating of the issuer is used. During the year there were no material breaches in exposure limits.

2014	AAA £'000s	AA £'000s	A £'000s	<A £'000s	NR £'000s	Total £'000s
Financial investments:						
Other financial investments	38,421	94,676	50,696	10,762	8,675	203,230
Overseas deposits	2,967	2,015	2,576	263	-	7,821
Cash at bank and in hand	-	-	1,776	-	-	1,776
Reinsurers' share of outstanding claims including reinsurers' IBNR	20,266	1,794	1,527	-	-	23,587
	61,654	98,485	56,575	11,025	8,675	236,414

	AAA £'000s	AA £'000s	A £'000s	<A £'000s	NR £'000s	Total £'000s
2013						
Financial investments:						
Other financial investments	34,963	81,066	63,999	18,531	7,110	205,669
Overseas deposits	4,138	2,773	875	31	-	7,817
Cash at bank and in hand	-	-	2,159	-	-	2,159
Reinsurers' share of outstanding claims including reinsurers' IBNR	38,052	278	10	-	-	38,340
	77,153	84,117	67,043	18,562	7,110	253,985

The largest potential reinsurer credit exposure to the syndicate at 31 December 2014 was 34.2% with Kane SAC, which is a fully collateralised security (2013: 62.9% with Tokio Marine & Nichido Fire Insurance Co., Ltd, which is an AAA rated security). The Reinsurance Security Committee of the managing agent reviews the level of this exposure and takes appropriate action where necessary.

An aged analysis of financial assets past-due is shown below.

	Fully performing £'000s	Past due £'000s	Impairment £'000s	Total £'000s
2014				
Financial investments:				
Other financial investments	203,230	-	-	203,230
Overseas deposits	7,821	-	-	7,821
Cash at bank and in hand	1,776	-	-	1,776
Insurance receivables	94,800	7,809	-	102,609
Reinsurance assets	2,351	15	-	2,366
	309,978	7,824	-	317,802

	Fully performing £'000s	Past due £'000s	Impairment £'000s	Total £'000s
2013				
Financial investments:				
Other financial investments	205,669	-	-	205,669
Overseas deposits	7,817	-	-	7,817
Cash at bank and in hand	2,159	-	-	2,159
Insurance receivables	135,872	4,686	-	140,558
	351,517	4,686	-	356,203

For assets to be classified as past-due the contractual payments are in arrears by more than 30 days. An impairment adjustment is recorded in the profit and loss account for assets impaired. The syndicate operates mainly on a 'neither past-due nor impaired basis' and when evidence is available, sufficient collateral will be obtained for 'past-due and impaired' assets. An impairment assessment will also be performed if applicable.

Liquidity risk

For details of the management of the syndicate's liquidity risks please refer to page 6.

The syndicate writes a significant proportion of US Situs and Canadian business which requires the deposit of appropriate monies in specific trust funds. Some of these trust funds are regulated, requiring quarterly assessment of the adequacy of funding. Surplus funds or additional funding requirements are settled each quarter between the regulated and non-regulated trust funds. In exceptional circumstances, and with approval from Lloyd's, inter-fund settlement can take place outside the quarterly process. As at 31 December 2014 the balance held in these trust funds was US\$106.0m (2013: US\$124.7m) and Canadian \$17.4m (2013: Canadian \$17.9m).

The following table analyses the significant monetary assets and liabilities into their relevant maturity groups based on the remaining period at the year-end date to their contractual maturities or expected settlement dates. The financial instruments can be realised at any time, but the table presents their maturity profiles should they continue to be held.

2014	Up to 1 year £'000s	1-3 years £'000s	3-5 years £'000s	Over 5 years £'000s	Total £'000s
Assets:					
Financial investments	122,861	69,577	8,705	2,087	203,230
Overseas deposits	4,656	2,656	509	-	7,821
Cash at bank and in hand	1,776	-	-	-	1,776
Insurance receivables	87,290	15,319	-	-	102,609
Liabilities:					
Forward currency contracts	(23)	-	-	-	(23)
	216,560	87,552	9,214	2,087	315,413

2013	Up to 1 year £'000s	1-3 years £'000s	3-5 years £'000s	Over 5 years £'000s	Total £'000s
Assets:					
Financial investments	110,952	88,502	4,134	2,081	205,669
Overseas deposits	2,726	3,723	1,368	-	7,817
Cash at bank and in hand	2,159	-	-	-	2,159
Insurance receivables	127,471	13,087	-	-	140,558
Liabilities:					
Forward currency contracts	(52)	-	-	-	(52)
	243,256	105,312	5,502	2,081	356,151

Foreign currency market risk

For further details of the management of the syndicate's market risk please refer to page 6.

The syndicate maintains bank accounts, investment portfolios and claims reserves in pounds sterling, US dollars and Canadian dollars (the Lloyd's closing currencies). Transactions arising in other currencies are translated to the Lloyd's closing currencies as they occur with only small amounts of other currencies being held for regulatory purposes. The syndicate's financial assets are therefore denominated in the same currencies as its insurance liabilities and thus the developing profit or loss that remains embedded within the syndicate gives rise to the main currency exposure. The profit or loss is distributed, or settled, in accordance with Lloyd's rules using a combination of pounds sterling and US dollars after deduction of the member level charges, the most material adjustment being the US dollar tax liability.

Foreign currency liquidity and exposure for the syndicate is the responsibility of the Finance Director. Strategy is agreed by the Finance Group and ratified by the Investment Committee. The syndicate currency exposure and future cash flows are monitored by currency and potential exposures and shortfalls addressed by foreign currency transactions or cash calls on the member.

A substantial proportion of the syndicate's business is written in currencies other than pounds sterling, in particular US dollars. The syndicate's business is therefore exposed to changes in exchange rates and there is no guarantee that foreign currency risk mitigation initiatives undertaken by the syndicate will be successful in preventing any losses due to such changes.

The syndicate uses forward currency contracts to manage its exposure to foreign currency risks arising from material losses in non-closing currencies. The use of financial derivatives is governed by the syndicate's policies approved by the Investment Committee, which provides written principles on the use of financial derivatives. More information is available in the 'fair value estimation' in part (c) of this note.

Exchange rate sensitivity analysis

The analysis below is performed for possible movements in key variables, with all other variables held constant, showing the impact on the result. The correlation of variables will have a significant effect in determining the ultimate impact. However, to isolate and demonstrate the effect due to changes in variables, each variable has been changed on an individual basis. It should be noted that movements in these variables are non-linear.

The following table shows the impact on the result of a ten percent movement in the US dollar and Canadian dollar to pounds sterling exchange rates.

	2014	2013
	£'000	£'000
10% increase in USD	(12,289)	(16,664)
10% increase in CAD	(419)	(687)
10% decrease in USD	15,019	20,367
10% decrease in CAD	512	840

Interest rate market risk

For further details of the management of the syndicate's market risk please refer to page 6.

The syndicate holds investments in its balance sheet and the performance of its investment portfolio may have an effect on the result. The income derived by the syndicate from its investments, and the capital value of its investments, may fall as well as rise. Therefore, changes in interest rates, credit ratings and other economic variables could substantially affect the syndicate's profitability.

The syndicate uses Treasury future derivatives to manage its exposure to interest rate risks. The use of financial derivatives is governed by the syndicate's policies approved by the Investment Committee, which provide written principles on the use of financial derivatives. More information is available in part (c) of this note.

Interest rate sensitivity analysis

The analysis below is performed for possible movements in key variables with all other variables held constant, showing the impact on the result. The correlation of variables will have a significant effect in determining the ultimate impact. However, to isolate and demonstrate the effect due to changes in variables, each variable has been changed on an individual basis. It should be noted that movements in these variables are non-linear.

The table below shows the estimated impact on the result and member's balances of a 1% movement in the US, UK and Canadian interest rates on the market value of the syndicate's investments.

	2014	2013
	£'000s	£'000s
1% movement in US interest rates	1,692	1,529
1% movement in UK interest rates	282	240
1% movement in Canadian interest rates	83	90

(c) Fair value estimation

Financial instruments that are fair valued through profit or loss are classified using a fair value hierarchy that reflects the significance of the inputs used in these measurements.

- Level 1 financial instrument comprise government bonds and securities which have been valued at fair value using quoted prices in an active market.
- Level 2 financial instruments are less regularly traded government agency bonds, supranational bonds, corporate bonds and currency derivatives. These fair values have been derived from quoted prices.
- The fair value for level 3 financial instruments is generally derived from inputs that are not based on observable market data. Level 3 securities include structured instruments the fair value of which are based on prices supplied by Thomson Reuters which utilise cashflow, credit and pricing assumptions

2014	£'000s			Total
	Level 1	Level 2	Level 3	
Derivative financial instruments:				
Forward currency derivatives – assets	198	-	-	198
Forward currency derivatives – liabilities	(23)	-	-	(23)
Government securities	73,517	3,870	-	77,387
Debt securities	-	114,248	11,397	125,645
	73,692	118,118	11,397	203,207

2013	£'000s			Total
	Level 1	Level 2	Level 3	
Derivative financial instruments:				
Forward currency derivatives – assets	129	-	-	129
Forward currency derivatives – liabilities	(52)	-	-	(52)
Initial margin fund for forward currency derivatives – assets	16	-	-	16
Treasury future derivatives - assets	29	-	-	29
Government securities	48,326	397	-	48,723
Debt securities	-	156,464	337	156,801
	48,448	156,861	337	205,646

At 31 December 2014 the syndicate held forward currency contracts for which the fair value is a net asset of £174,850 (2013: £77,307) with the gain going through investment income in the profit and loss account. In 2013 the syndicate held Treasury future contracts, for which the fair value at 31 December 2013 was an asset of £28,520. There were no such contracts at 31 December 2014.

	2014	2013
	£'000s	£'000s
Level 3 financial instruments		
Opening balance	337	-
Transfer into level 3	-	74
Sales during the year	(337)	(45)
Purchases during the year	11,572	310
Losses recognised in the profit and loss accounts	(175)	(2)
Closing balance	11,397	337