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Annual Report and Accounts 2015

Syndicate 1880
Managed by Tokio Marine Kiln Syndicates Limited

Contents

Directors, Active Underwriter and administration

Managing agent

Tokio Marine Kiln Syndicates Limited

Directors

Richard Bennison (non-executive, Chairman from 1/1/2016)	
Paul Hewitt (Chairman)	Resigned 31/12/15
Charles Franks (Chief Executive Officer)	
Bruce Bowers (non-executive)	Appointed 19/2/16
Richard Bucknall (non-executive)	Appointed 11/2/16
David Constable (non-executive)	
Rosie Harris (non-executive)	
Tony Hulse (non-executive)	Appointed 15/2/16
Paul Culham	Appointed 9/9/15
James Dover	
Denise Garland	
Andrew Hitchcox	
Richard Lewis	Resigned 31/12/15
Yusuke Otsuka	Appointed 28/1/16

Company Secretary

Fiona Molloy

Active Underwriter

Satoshi Naganuma

Registered office

20 Fenchurch Street
London EC3M 3BY

Registered number

729671

Investment managers

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

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

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

Report of the directors of the managing agent

The directors of the managing agent present their report and accounts for the year ended 31 December 2015 under UK Generally Accepted Accounting Practice (GAAP). This report covers Tokio Marine Kiln Syndicate 1880 (Syndicate 1880), managed by Tokio Marine Kiln Syndicates Limited.

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 2013 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.

This is the first year that the syndicate has presented its results under FRS 102 'The Financial Reporting Standard, applicable in the UK and Republic of Ireland'. The last financial statements under the previous UK GAAP were for the year ended 31 December 2014. The date of transition to FRS 102 was 1 January 2014. In accordance with FRS 102, the syndicate has identified its insurance contracts and accounted for them in accordance with FRS 103 'Insurance Contracts'. The impact of the transition to FRS 102 is set out in note 18 under title 'Transition to FRS 102' and in summary resulted in a decrease in profit for the financial year ended 31 December 2014 of £4.8m and an increase in member's balances at January 2014 of £3.2m.

Results

The result for the 2015 calendar year is a profit of £15.5m (2014 (restated): £34.9m) on gross written premium of £184.0m (2014: £147.0m) and net earned premium of £150.7m (2014 (restated): £144.9m).

Principal activity and review of the business

The principal activity of the syndicate remains 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 Corporate 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 products and capacity to support the group with strategic growth into new markets;
- to provide additional capacity for third-party business, largely supporting initiatives where Syndicate 510 has a significant participation; and
- to reinsure Tokio Marine Kiln managed Syndicate 510.

Syndicate 1880 reported top-line growth in 2015, despite the continued difficult market conditions which affected several parts of the book. This was mainly achieved through the strategic investments in US-based coverholders WNC Insurance Services, Inc. (WNC) and NAS Insurance Services, Inc. (NAS). The Engineering class of business was enhanced by a new team of underwriters joining at the end of 2014, the benefit of which is reflected in the 2015 premium.

Integration

2015 was the second full year following the integration of Kiln and Tokio Marine Europe to form Tokio Marine Kiln, which continues to develop and grow successfully. Tokio Marine Kiln has firmly established itself as a leading provider of specialist and corporate insurance through two separate underwriting platforms in the Lloyd's and Company markets.

The Lloyd's and Company underwriting functions of both operations remain separate, and our commitment to Lloyd's remains unchanged.

Outlook

For 2016, the syndicate will continue to develop its Large Corporate Property, Construction & Engineering insurance and third party business in order to achieve profitable scale.

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:

	2015 £'000s	2014 (Restated) £'000s
Gross written premium	**184,009**	146,974
Net earned premium	**150,705**	144,891
Profit for the financial year	**15,469**	34,872
Claims ratio	**47%**	43%
Combined ratio	**91%**	77%

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, net operating expenses (including personal expenses) and profit or loss on exchange to net premiums earned. In each case, a lower combined ratio represents a better performance. Excluding profit or loss on exchange the combined ratio is 89% (2014 (restated): 77%).

2015 was relatively benign from a catastrophe perspective, however there were several large losses on the portfolio which resulted in a net claims ratio above that of the prior year. The combined ratio is higher in comparison to the prior year, which is a result of a change in the business mix of the syndicate.

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 management

Capital Framework at Lloyd’s

The Society of Lloyd’s (Lloyd’s) is a regulated undertaking and subject to supervision by the Prudential Regulatory Authority (PRA) under the Financial Services and Markets Act 2000, and in accordance with the Solvency II Framework.

Within this supervisory framework, Lloyd’s applies capital requirements at member level and centrally to ensure that Lloyd’s would comply with the Solvency II requirements, and beyond that to meet its own financial strength, licence and ratings objectives.

Although, as described below, Lloyd’s capital setting processes use a capital requirement set at syndicate level as a starting point, the requirement to meet Solvency II and Lloyd’s capital requirements apply at overall and member level only respectively, not at syndicate level. Accordingly, the capital requirement in respect of Syndicate 1880 is not disclosed in these financial statements.

Lloyd’s capital setting process

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

A syndicate may be comprised of one or more underwriting members of Lloyd’s. Each member is liable for its own share of underwriting liabilities on the syndicate(s) on which it is participating but not other members’ shares. Accordingly, the capital requirements that Lloyd’s sets for each member operates on a similar basis. Each member’s SCR shall thus be determined by the sum of the member’s share of the syndicate SCR ‘to ultimate’. Where a member participates on more than one syndicate, a credit for diversification is provided to reflect the spread of risk, but consistent with determining an SCR which reflects the capital requirement to cover a 1 in 200 loss ‘to ultimate’ for that member. Over and above this, Lloyd’s applies a capital uplift to the member’s capital requirement, known as the Economic Capital Assessment (ECA). The purpose of this uplift, which is a Lloyd’s not a Solvency II requirement, is to meet Lloyd’s financial strength, licence and ratings objectives. The capital uplift applied for 2016 was 35% of the member’s SCR ‘to ultimate’.

Provision of capital by members

Each member may provide capital to meet its ECA either by assets held in trust by Lloyd’s specifically for that member (funds at Lloyd’s), assets held 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 balance sheet on page 17, represent resources available to meet members' and Lloyd's capital requirements.

Capital allocation

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 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. The Investment Committee regularly tracks and reviews our investment portfolio.

Market risk

The risk that arises from fluctuations in values of, or income from, assets, interest rates 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 has no exposure to equity related investments and we regularly review our balance of assets and liabilities. The syndicate maintains a diversified investment portfolio to restrict the concentration of assets.

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. Operational risk forms a significant part of the syndicate's Risk Register. Risks are reviewed on a quarterly basis 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 Risk and Compliance Committee also reviews the operational risk profile quarterly, in line with the Risk Management Framework.

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 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.

2015 saw further progress on Solvency II implementation. Lloyd's Internal Model application was approved in late 2015 and the syndicate has successfully transitioned from the preparatory phase of Solvency II to the live phase as at January 2016.

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 in order to 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 while their incidence is ultimately outside management control, they are managed by regular oversight from the Risk Management Team reporting to the Risk and Compliance Committee.

Directors

The directors of the managing agent who served during the year ended 31 December 2015 are reported under the section 'Directors, Active Underwriter and administration' on page 3.

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
14 March 2016

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 2015 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 2015, which are prepared by the managing agent, comprise:

- the statement of comprehensive income for the year then ended;
- the balance sheet as at 31 December 2015;
- the statement of changes in member's balances;
- the cash flow statement;
- the 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 United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law (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 11, 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 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.

Deepti Vohra

Senior Statutory Auditor

For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
15 March 2016

Statement of comprehensive income: technical account - general business
for the year ended 31 December 2015

	Note	2015 £'000s	2014 (Restated) £'000s
Earned premiums, net of reinsurance			
Gross premiums written	2	**184,009**	146,974
Outward reinsurance premiums		**(28,480)**	(23,635)
Net premiums written		**155,529**	123,339
Change in the provision for unearned premiums:			
Gross amount		**(12,158)**	17,482
Reinsurers' share		**7,334**	4,070
Change in the net provision for unearned premiums		**(4,824)**	21,552
Earned premiums, net of reinsurance		**150,705**	144,891
Allocated investment return transferred from the non-technical account		**702**	1,386
Claims incurred, net of reinsurance			
Claims paid:			
Gross amount		**(43,933)**	(108,390)
Reinsurers' share		**6,943**	17,171
Net claims paid		**(36,990)**	(91,219)
Change in the provision for claims:			
Gross amount		**(28,831)**	45,511
Reinsurers' share		**(5,028)**	(16,221)
Change in the net provision for claims		**(33,859)**	29,290
Claims incurred, net of reinsurance		**(70,849)**	(61,929)
Member's standard personal expenses		**(5,140)**	(3,995)
Net operating expenses	3,4,5	**(58,363)**	(45,274)
Balance on the technical account for general business		**17,055**	35,079

All operations are continuing.

Statement of comprehensive income: non-technical account for the year ended 31 December 2015

	Note	2015 £'000s	2014 (Restated) £'000s
Balance on the general business technical account		**17,055**	35,079
Investment income	6	**3,147**	3,844
Investment expenses and charges	6	**(1,266)**	(1,075)
Net unrealised losses on investments	6	**(435)**	(892)
Allocated investment return transferred to the general business technical account	6,7	**(702)**	(1,386)
(Loss) on exchange		**(2,330)**	(698)
Profit for the financial year		**15,469**	34,872

There is no other comprehensive income.

Balance sheet: assets
as at 31 December 2015

	Note	2015 £'000s	2014 (Restated) £'000s
Investments			
Other financial investments	8	**130,501**	203,230
Reinsurers' share of technical provisions			
Provision for unearned premiums	9	**12,509**	4,765
Claims outstanding	9,10	**19,719**	23,587
		32,228	28,352
Debtors			
Debtors arising out of direct insurance operations	11	**54,492**	39,151
Debtors arising out of reinsurance operations		**70,405**	65,824
Other debtors		**2,797**	1,663
		127,694	106,638
Other assets			
Cash at bank and in hand		**876**	1,776
Overseas deposits	12	**12,041**	7,821
		12,917	9,597
Prepayments and accrued income			
Deferred acquisition costs	13	**26,571**	17,904
Other prepayments and accrued income		**703**	284
		27,274	18,188
Total assets		**330,614**	**366,005**

Balance sheet: liabilities as at 31 December 2015

	Note	2015 £'000s	2014 (Restated) £'000s
Capital and reserves			
Member's balances		**10,905**	96,018
Technical provisions			
Provision for unearned premiums	9	**93,330**	77,844
Claims outstanding	9,10	**167,948**	133,700
		261,278	211,544
Creditors			
Creditors arising out of direct insurance operations	14	**5,819**	4,069
Creditors arising out of reinsurance operations		**43,845**	50,780
Other creditors	15	**5,000**	2,420
		54,664	57,269
Accruals and deferred income			
Reinsurers' share of deferred acquisition costs	13	**3,706**	1,073
Other accruals and deferred income		**61**	101
		3,767	1,174
Total liabilities		**330,614**	366,005

The annual accounts, which comprise pages 14 to 39 and include the notes and principal accounting policies, were approved by the Board of Tokio Marine Kiln Syndicates Limited on 10 March 2016 and were signed on its behalf by

James Dover

Finance Director

Tokio Marine Kiln Syndicates Limited

14 March 2016

Statement of changes in member's balances for the year ended 31 December 2015

	Note	2015 £'000s	2014 (Restated) £'000s
Member's balances brought forward at 1 January		**96,018**	120,061
Impact of change in accounting policy on adoption of FRS 102	18	**-**	3,183
Restated balance at 1 January		**96,018**	123,244
Profit for the financial year		**15,469**	34,872
Payments of profit to member's personal reserve funds		**(26,613)**	(104,662)
Funds in Syndicate		**(73,969)**	42,564
Member's balances carried forward at 31 December		**10,905**	**96,018**

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.

Cash flow statement
for the year ended 31 December 2015

	Note	2015 £'000s	2014 (Restated) £'000s
Cash flows from operating activities:			
Operating profit on ordinary activities		**15,469**	34,872
Increase/(decrease) in gross technical provisions		**49,734**	(54,646)
(Increase)/decrease in reinsurers' share of technical provisions		**(3,876)**	10,509
(Increase)/decrease in debtors		**(30,142)**	36,508
(Decrease)/increase in creditors		**(12)**	32,037
Realised and unrealised investment (gains) including foreign exchange		**(6,847)**	(8,789)
Investment return		**(702)**	(1,386)
Net cash inflow from operating activities		**23,624**	49,105
Cash flows from investing activities:			
Purchase of shares and other variable yield securities		**(7,841)**	-
Sale of shares and other variable yield securities		**-**	10,681
Purchase of debt securities and other fixed income securities		**(227,888)**	(264,819)
Sale of debt securities and other fixed income securities		**304,886**	275,741
Purchase of derivatives		**-**	(52)
Sale of derivatives		**171**	-
Investment income received		**1,265**	2,006
Other		**(563)**	(621)
Net cash inflow from investing activities		**70,030**	22,936
Cash flows from financing activities:			
Transfer to member in respect of underwriting participations		**(26,613)**	(104,662)
Profits added to Funds in Syndicate		**-**	42,564
Funds in Syndicate released to member		**(73,969)**	-
Changes to market value and exchange rates		**(102)**	28
Net cash (outflow) from financing activities		**(100,684)**	(62,070)
Net (decrease)/increase in cash and cash equivalents		**(7,030)**	9,971
Cash and cash equivalents at beginning of year		**19,947**	9,976
Cash and cash equivalents at end of year		**12,917**	19,947
Cash and cash equivalents consists of:			
Cash at bank and in hand		**876**	1,776
Overseas deposits	12	**12,041**	7,821
Short term deposits presented within other financial investments		**-**	10,350
Cash and cash equivalents at end of year		**12,917**	19,947

Notes to the accounts and principal accounting policies as at 31 December 2015

1. Accounting policies and use of critical accounting estimates and judgements in applying 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 Accounting Standards in the United Kingdom, including Financial Reporting Standard 102, 'The Financial Reporting Standard applicable in United Kingdom and the Republic of Ireland' (FRS 102) and Financial Reporting Standard 103, 'Insurance Contracts' (FRS 103). Details of the transition to FRS 102 and FRS 103 are disclosed in note 18. 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 member's 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) Critical accounting judgements and estimation uncertainty

In preparing the syndicate's annual accounts the managing agent has made judgements and estimates that affect the application of the syndicate's accounting policies and the reported amounts of assets, liabilities, income and expenses. These judgements and estimates are continually evaluated and based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are those listed below. The judgements and estimation uncertainty are explained within the individual accounting policies:

- Premiums written;
- Earned premiums;
- Claims provisions and related recoveries;
- Acquisition costs;
- Investments.

d) 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 facilities such as binding authorities, line slips or consortium arrangements are estimated based on information provided by the broker, past underwriting experience and prevailing market conditions. The estimates are updated on a regular basis. It is assumed that risks incept in general evenly across the period of the facility and therefore only the proportion of risks incepted at the year end date are reported as written. Premiums are shown gross of brokerage payable and exclude taxes and duties levied on them. Estimates are made for pipeline premiums on a risk by risk basis, representing the difference between the written and signed premium, which 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.

e) 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 earning patterns are based primarily on time apportionment, with an adjustment for the risk profile of certain classes of business, particularly those exposed to seasonal weather related events. 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.

f) 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.

g) 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.

h) 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.

i) 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. At each period end foreign currency monetary items are translated using the closing rate. For this purpose all assets and liabilities arising from insurance contracts (including unearned premiums and deferred acquisition costs) are monetary items.

Foreign exchange gains and losses resulting from the settlement of transactions and from the measurement at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the non-technical account.

Exchange rates used are as follows:

	Average rate		Year-end rate	
	2015	2014	2015	2014
US dollar	1.53	1.65	1.47	1.56
Canadian dollar	1.95	1.82	2.05	1.81

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.

j) Investments

The syndicate has chosen to apply the provisions of FRS 102 in full in respect of financial instruments.

The syndicate classifies its financial assets into 'shares and other variable-yield securities' and 'debt securities and other fixed-income securities' – both 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 absolute return funds 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 statement of comprehensive income within 'unrealised gains on investments' or 'unrealised losses on investments' in the period in which they arise.

k) 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 statement of comprehensive income. 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.

l) 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.

m) 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 quarter end revalued at market prices.

n) 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.

o) Pension costs

Tokio Marine Kiln Syndicates Limited operates a defined contribution scheme. Pension contributions relating to syndicate staff are charged to the syndicates and included within net operating expenses.

p) 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 and profit or loss on exchange is set out below:

Year ended 31 December 2015	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	**1,222**	**2,446**	**(1,367)**	**(1,131)**	**(148)**	**(200)**	**2,189**
Marine, aviation and transport	**5,478**	**4,706**	**(4,143)**	**(948)**	**(4)**	**(389)**	**7,406**
Fire and other damage to property	**111,790**	**100,045**	**(48,703)**	**(40,273)**	**(7,108)**	**3,961**	**120,218**
Third party liability	**16,547**	**10,143**	**(4,784)**	**(5,271)**	**(598)**	**(510)**	**12,758**
	135,037	**117,340**	**(58,997)**	**(47,623)**	**(7,858)**	**2,862**	**142,571**
Reinsurance acceptances	**48,972**	**54,511**	**(13,767)**	**(17,491)**	**(9,762)**	**13,491**	**86,479**
	184,009	**171,851**	**(72,764)**	**(65,114)**	**(17,620)**	**16,353**	**229,050**

Year ended 31 December 2014 (Restated)	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	4,411	(3,636)	(1,920)	(66)	(1,211)	3,760
Marine, aviation and transport	4,609	4,843	(5,372)	(439)	(144)	(1,112)	10,353
Fire and other damage to property	79,065	76,734	(26,664)	(27,116)	(5,904)	17,050	96,170
Third party liability	3,562	2,675	37	(439)	(1,154)	1,119	729
	91,393	88,663	(35,635)	(29,914)	(7,268)	15,846	111,012
Reinsurance acceptances	55,581	75,793	(27,244)	(19,824)	(10,878)	17,847	72,180
	146,974	164,456	(62,879)	(49,738)	(18,146)	33,693	183,192

All premiums were concluded in the UK.

The total commission payable on direct business was £44,826,817 (2014: £24,482,824).

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

	2015 £'000s	2014 £'000s
UK	**7,832**	(47,583)
Other EU countries	**6,345**	15,419
US	**125,739**	114,954
Other	**44,093**	64,184
	184,009	146,974

3. Net operating expenses

	2015 £'000s	2014 (Restated) £'000s
Acquisition costs	**55,928**	31,982
Change in deferred acquisition costs	**(7,845)**	2,771
Administrative expenses	**11,891**	10,990
Gross operating expenses	**59,974**	45,743
Reinsurance commissions receivable	**(1,611)**	(469)
	58,363	45,274

Included within administrative expenses is auditors' remuneration:

	2015 £'000s	2014 £'000s
Audit services:		
Fees payable to the syndicate's auditors for the audit of the syndicate annual accounts	**64**	57
Other services:		
Other services pursuant to legislation	**134**	59
	198	116

In 2015 the charge incurred for other services relates to the audit and review of the syndicate's regulatory returns and the provision of statements of actuarial opinion on the reserves (2014: wholly and exclusively in relation to the audit and review of the syndicate's regulatory returns).

4. 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:

	2015 £'000s	2014 £'000s
Wages and salaries	**4,532**	3,864
Social security costs	**491**	445
Other pension costs	**209**	58
	5,232	4,367

Of this amount £54,794 (2014: £58,372) 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:

	2015	2014
Administration and finance	**29**	25
Underwriting	**14**	14
Claims	**4**	5
	47	44

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, 46 (2014: 43) are employed by Tokio Marine Kiln Insurance Services Limited and the remainder by other Tokio Marine Group companies.

5. 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:

	2015 £'000s	2014 £'000s
Emoluments	**330**	335
	330	335

Of the above amount £156,254 (2014: £173,381) 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:

	2015 £'000s	2014 £'000s
Emoluments	**53**	52
	53	52

The profit commission included within the emoluments is in relation to the 2012 year of account (2014: 2011 YOA), as the allocation to underwriters was only determined following its closure.

6. Investment income and expenses

	2015 £'000s	2014 £'000s
Investment income:		
Income from investments	**2,702**	3,602
Realised gains on investments	**445**	242
Unrealised gains on investments	**22**	160
Investment expenses:		
Investment management expenses, including interest	**(223)**	(210)
Realised losses on investments	**(1,043)**	(865)
Unrealised losses on investments	**(457)**	(1,052)
	1,446	1,877

The above figures include £743,944 (2014: £491,078) of investment income earned on cash and investments deposited into the syndicate by Tokio Marine Underwriting Limited as FIS.

7. Calendar year investment yield

	2015 £'000s	2014 £'000s
Average amount of syndicate funds during the year:		
Sterling fund	**36,093**	32,939
US dollar fund	**133,399**	155,492
Canadian dollar fund	**13,286**	11,700
Aggregate gross investment return:		
Before investment expenses	**1,669**	2,087
After investment expenses	**1,446**	1,877
Calendar year investment yield:	**%**	%
Before investment expenses	**0.9**	1.0
After investment expenses	**0.8**	0.9
Analysis of calendar year investment yield by fund:	**%**	%
Sterling fund	**0.4**	1.2
US dollar fund	**0.9**	0.9
Canadian dollar fund	**1.0**	1.3

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

8. Other financial investments

	Fair value		Purchase price	
	2015	**2014**	**2015**	**2014**
	£'000s	**£'000s**	**£'000s**	**£'000s**
Shares and other variable yield securities	**27,582**	19,414	**27,582**	19,414
Debt securities and other fixed income securities	**102,886**	183,618	**103,068**	183,882
Other investments	**33**	198	**-**	-
	130,501	203,230	**130,650**	203,296

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

Other investments are comprised of forward currency contracts.

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 2015 was £8,076,493 (2014: £7,174,494).

9. Reconciliation of insurance balances

The reconciliation of the opening and closing provision for unearned premiums is as follows:

	Gross		Reinsurers' share	
	2015	**2014 (Restated)**	**2015**	**2014 (Restated)**
	£'000s	**£'000s**	**£'000s**	**£'000s**
At 1 January	**77,844**	92,055	**(4,765)**	(521)
Premium written during the year	**184,009**	146,974	**(28,480)**	(23,635)
Premium earned during the year	**(171,851)**	(164,456)	**21,146**	19,565
Foreign exchange adjustments	**3,328**	3,271	**(410)**	(174)
At 31 December	**93,330**	77,844	**(12,509)**	(4,765)

The reconciliation of the opening and closing provision for claims outstanding is as follows:

	Gross		Reinsurers' share	
	2015	**2014**	**2015**	**2014**
	£'000s	**£'000s**	**£'000s**	**£'000s**
At 1 January	**133,700**	174,135	**(23,587)**	(38,340)
Claims incurred during the year	**72,764**	62,879	**(1,915)**	(950)
Claims paid during the year	**(43,933)**	(108,390)	**6,943**	17,171
Foreign exchange adjustments	**5,417**	5,076	**(1,160)**	(1,468)
At 31 December	**167,948**	133,700	**(19,719)**	(23,587)

10. Claims outstanding

Within the calendar year technical result, a surplus of £3.9m (2014: £8.3m) relates to the reassessment of net claims incurred for previous accident years.

The following table shows the development gross and net claims incurred including IBNR and the claims handling provision over the last five years. The claims development tables are prepared on an underwriting year of account basis, and therefore reflect the pattern of earned premium and risk exposure over a number of years. All figures are shown converted at current year-end rates.

Gross of reinsurance

Year of Account	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m
Year 1	537.0	155.4	63.1	51.7	44.7
Year 2	541.5	178.5	86.9	84.7	
Year 3	484.4	180.3	89.5		
Year 4	478.8	178.0			
Year 5	472.7				
Cumulative claims paid	460.4	144.7	63.3	36.7	3.8
Outstanding claims reserve	12.3	33.3	26.2	48.0	40.9

Net of reinsurance

Year of Account	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m
Year 1	537.0	105.8	62.8	51.0	43.3
Year 2	537.0	138.8	86.4	83.2	
Year 3	484.4	140.5	89.1		
Year 4	475.4	138.8			
Year 5	468.9				
Cumulative claims paid	457.9	120.8	63.2	36.6	3.8
Outstanding claims reserve	11.0	18.0	25.9	46.6	39.5

11. Debtors arising out of direct insurance operations

	2015 £'000s	2014 £'000s
Amounts due from intermediaries within one year	**54,456**	39,102
Amounts due from intermediaries after one year	**36**	49
	54,492	39,151

12. Overseas deposits

Overseas deposits are lodged as a condition of conducting underwriting business in certain countries.

13. Reconciliation of deferred acquisition costs

The reconciliation of the opening and closing deferred acquisition costs is as follows:

	Gross		Reinsurers' share	
	2015 £'000s	2014 (Restated) £'000s	2015 £'000s	2014 (Restated) £'000s
At 1 January	**17,904**	19,997	**(1,073)**	(154)
Expenses for the acquisition of insurance contracts deferred during the year	**63,773**	29,211	**(6,651)**	(2,235)
Amortisation	**(55,928)**	(31,982)	**4,131**	1,352
Foreign exchange adjustments	**822**	678	**(113)**	(36)
At 31 December	**26,571**	17,904	**(3,706)**	(1,073)

14. Creditors arising out of direct insurance operations

	2015 £'000s	2014 £'000s
Amounts due to intermediaries within one year	**5,819**	4,020
Amounts due to intermediaries after one year	**-**	49
	5,819	4,069

15. Other creditors

The following balances are included within other creditors:

	2015 £'000s	2014 £'000s
Forward currency contracts – held to maturity	**30**	23
	30	23

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 2015 was £12,223,241 (2014: £19,112,846). The above balances are stated at fair value.

16. 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.

Syndicate 1880 accepted written premium from related parties in the 2015 calendar year of £10,604,819 (2014: outflow of £12,344,827). Adjustments to reinstatement premium resulted in an inflow of outwards reinsurance premiums ceded of £110,887 (2014: inflow of £43,387). Claims paid to related parties during 2015 were £4,419,994 (2014: £44,262,558). Outstanding claims, including an element of IBNR, were £7,247,657 (2014: £23,072,201) and reinsurance recoveries were £17,632,136 (2014: £22,594,259).

Treaty profit commission paid to related parties for the 2015 calendar year was £1,761,996 (2014: £1,720,216) and £134,118 of treaty profit commission was payable as at the balance sheet date (2014: £110,482).

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 £1,351,450 was paid to related parties for the 2015 calendar year (2014: £394,099) and £1,680,432 of profit commission was payable as at the balance sheet date (2014: £1,783,417).

Profit commission of £2,841,012 is payable by the syndicate to Tokio Marine Kiln Syndicates Limited in respect of the 2015 calendar year (2014: £1,020,717). 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 (2014: £2,700,000) were paid by the syndicate to Tokio Marine Kiln Syndicates Limited. In addition to this, expenses of £10,067,809 (2014: £9,678,050) were paid to Tokio Marine Kiln Syndicates Limited for expenses paid on behalf of the syndicate.

17. Risk management

Details of the syndicate's risk management framework are given in the 'principal risks and uncertainties section' on pages 6 to 10.

(a) Insurance risk

Further details on the management of the syndicate's insurance risk are given on page 7.

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.

2015	Gross claims provision £'000s	Reinsurance claims provision £'000s	Net claims provision £'000s
Direct insurance:			
Accident and health	**1,407**	**(5)**	**1,402**
Marine, aviation and Transport	**3,614**	**(1,152)**	**2,462**
Fire and other damage to property	**80,769**	**(11,142)**	**69,627**
Third party liability	**4,735**	**-**	**4,735**
	90,525	**(12,299)**	**78,226**
Reinsurance acceptances	**77,423**	**(7,420)**	**70,003**
	167,948	**(19,719)**	**148,229**

2014	Gross claims provision £'000s	Reinsurance claims provision £'000s	Net claims provision £'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

	2015 £'000s	2014 £'000s
UK	**10,859**	18,751
Other EU countries	**5,856**	10,561
US	**99,625**	74,276
Other	**51,608**	30,112
Gross claims provision	**167,948**	133,700

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 (2014 (restated): £1.6m) 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 £0.4m (2014 (restated): £0.5m). A decrease of 1% would result in £1.7m (2014 (restated): £1.6m) less premium being reported and an estimated £0.4m (2014 (restated): £0.5m) 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 2015 is 47% (2014 (restated): 43%). 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 (2014 (restated): £1.4m) and the result reducing by £1.2m (2014 (restated): £1.2m).

(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 8.

The following table provides information regarding credit risk exposures of the syndicate by classifying assets according to the credit ratings of the counterparties. For financial investments, the Standard & Poor's credit rating was used. For other assets, where a rating is provided by more than one rating agent, the highest rating was assigned to that asset. Previously, only the Standard & Poor's credit rating was used. Where a security has no credit rating the rating of the issuer is used. During the year there were no material breaches in exposure limits.

	AAA	AA	A	<A	NR	Total
2015	**£'000s**	**£'000s**	**£'000s**	**£'000s**	**£'000s**	**£'000s**
Financial investments:						
Other financial investments	28,098	67,409	21,430	4,606	8,958	130,501
Overseas deposits	3,217	2,171	5,758	895	-	12,041
Cash at bank and in hand	-	-	876	-	-	876
Reinsurers' share of outstanding claims including reinsurers' IBNR	16,778	2,000	891	-	50	19,719
	48,093	71,580	28,955	5,501	9,008	163,137

2014 (Restated)	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	2,976	2,020	2,561	264	-	7,821
Cash at bank and in hand	-	-	1,776	-	-	1,776
Reinsurers' share of outstanding claims including reinsurers' IBNR	22,594	639	354	-	-	23,587
Reinsurance debtors	2,351	-	-	-	-	2,351
	66,342	97,335	55,387	11,026	8,675	238,765

The largest potential reinsurer credit exposure to the syndicate at 31 December 2015 was 22.57% with Tokio Marine Kiln Insurance Limited, which is an A rated security (2014: 34.2% with Kane SAC, which was a fully collateralised 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.

2015	Fully performing £'000s	Past due £'000s	Impairment £'000s	Total £'000s
Financial investments:				
Other financial investments	**130,501**	**-**	**-**	**130,501**
Overseas deposits	**12,041**	**-**	**-**	**12,041**
Cash at bank and in hand	**876**	**-**	**-**	**876**
Reinsurers' share of outstanding claims including reinsurers' IBNR	**19,719**	**-**	**-**	**19,719**
Insurance debtors	**114,900**	**9,997**	**-**	**124,897**
Other debtors	**2,797**	**-**	**-**	**2,797**
	280,834	**9,997**	**-**	**290,831**

2014 (Restated)	Fully performing £'000s	Past due £'000s	Impairment £'000s	Total £'000s
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
Reinsurers' share of outstanding claims including reinsurers' IBNR	23,587	-	-	23,587
Insurance debtors	98,235	4,374	-	102,609
Reinsurance debtors	2,351	15	-	2,366
Other debtors	1,663	-	-	1,663
	338,663	4,389	-	343,052

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 Statement of comprehensive income 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 8.

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 2015 the balance held in these trust funds was US$105.6m (2014: US$106.0m) and Canadian $22.2m (2014: Canadian $17.4m).

The following table analyses the financial liabilities and claims outstanding into their relevant maturity groups based on the remaining period at the year end date to their contractual maturities or expected settlement dates. The projected settlement of claims outstanding is modelled using actuarial techniques. These estimates assume that future claims settlement patterns will be broadly similar to those experienced in the past. Previously, assets were also included.

2015	Up to 1 year £'000s	1-3 years £'000s	3-5 years £'000s	Over 5 years £'000s	Total £'000s
Financial liabilities:					
Forward currency contracts	**(30)**	**-**	**-**	**-**	**(30)**
Creditors	**(49,412)**	**(5,252)**	**-**	**-**	**(54,664)**
	(49,442)	**(5,252)**	**-**	**-**	**(54,694)**
Claims outstanding	**(85,747)**	**(54,094)**	**(16,472)**	**(11,635)**	**(167,948)**
Financial Liabilities and claims outstanding	**(135,189)**	**(59,346)**	**(16,472)**	**(11,635)**	**(222,642)**

2014	Up to 1 year £'000s	1-3 years £'000s	3-5 years £'000s	Over 5 years £'000s	Total £'000s
Financial liabilities:					
Forward currency contracts	(23)	-	-	-	(23)
Creditors	(55,934)	(1,335)	-	-	(57,269)
	(55,957)	(1,335)	-	-	(57,292)
Claims outstanding	(76,527)	(41,767)	(9,218)	(6,188)	(133,700)
Financial Liabilities and claims outstanding	(132,484)	(43,102)	(9,218)	(6,188)	(190,992)

Foreign currency market risk

For further details of the management of the syndicate's market risk please refer to page 8.

The syndicate maintains bank accounts, investment portfolios and claims reserves in pounds sterling, US dollars and Canadian dollars (the Lloyd's closing currencies). Additionally bank accounts and investment portfolios are maintained in Euros. Transactions arising in other currencies are translated to the Lloyd's closing currencies as they occur. Certain other currencies are 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.

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, hedges 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 the Canadian dollar and 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 and net assets of a ten percent movement in the US dollar and Canadian dollar to pounds sterling exchange rates.

	2015 £'000s	2014 (Restated) £'000s
10% increase in USD	**(5,171)**	(8,150)
10% increase in CAD	**(278)**	(102)
10% decrease in USD	**6,320**	9,961
10% decrease in CAD	**339**	124

Interest rate market risk

For further details of the management of the syndicate's market risk please refer to page 8.

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 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 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 net assets and member's balances of a 50 basis point movement in interest rates on the market value of the syndicate's investments. Last year, 100 basis points was used.

	2015 £'000s	2014 (Restated) £'000s
Impact of 50 basis point increase on result	**(545)**	(698)
Impact of 50 basis point decrease on result	**502**	586
Impact of 50 basis point increase on net assets	**(545)**	(698)
Impact of 50 basis point decrease on net assets	**502**	586

(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 A financial instruments comprise government bonds and securities which have been valued at fair value using quoted prices in an active market.
- Level B financial instruments are securities which have been valued at fair value using the price of a recent transaction for an identical asset. Money market and open-ended funds are included within this level.
- The fair value for level C financial instruments is derived using market variables such as yield curves, credit spreads and quoted prices of similar assets. Level C securities include government agency bonds, supranational bonds and corporate bonds.

		£'000s		
2015	**Level A**	**Level B**	**Level C**	**Total**
Derivative financial instruments:				
Forward currency derivatives – assets	**33**	**-**	**-**	**33**
Forward currency derivatives – liabilities	**(30)**	**-**	**-**	**(30)**
Shares and other variable yield securities	**-**	**27,582**	**-**	**27,582**
Debt securities and other fixed income securities	**49,516**	**-**	**53,370**	**102,886**
Loans and deposits with credit institutions	**9,271**	**-**	**2,770**	**12,041**
	58,790	**27,582**	**56,140**	**142,512**

		£'000s		
2014	**Level A**	**Level B**	**Level C**	**Total**
Derivative financial instruments:				
Forward currency derivatives – assets	198	-	-	198
Forward currency derivatives – liabilities	(23)	-	-	(23)
Shares and other variable yield securities	-	19,414	-	19,414
Debt securities and other fixed income securities	77,387	-	106,231	183,618
Loans and deposits with credit institutions	4,756	-	3,065	7,821
	82,318	19,414	109,296	211,028

At 31 December 2015 the syndicate held forward currency contracts for which the fair value is a net asset of £3,602 (2014: £174,850) with the gain going through investment income in the statement of comprehensive income.

18. Transition to FRS 102

This is the first year that the syndicate has presented its results under FRS 102. The last financial statements under previous UK GAAP were for the year ended 31 December 2014. The date of transition to FRS 102 was 1 January 2014. Set out below are the changes in accounting policies which reconcile profit for the financial year ended 31 December 2014 and the member's balances as at 1 January 2014 and 31 December 2014 between UK GAAP as previously reported and FRS 102.

Profit for the financial year	2014 £'000s
UK GAAP – As previously reported	39,708
Change in the movement of the provision for unearned premiums:	
Gross amount	(3,052)
Reinsurers' share	55
Change in the movement of the net provision for unearned premiums	(2,997)
Change in net operating expenses:	
Deferred acquisition costs	655
Reinsurance commissions and profit participations	(11)
Change in net operating expenses	644
Loss on exchange	(2,483)
Total adjustment to profit for the financial year	(4,836)
FRS 102	34,872

Member's balances	1 January 2014 £'000s	31 December 2014 £'000s
UK GAAP – As previously reported	**120,061**	**97,671**
Change in the provision for unearned premiums:		
Gross amount	4,002	(2,321)
Reinsurers' share	-	229
Change in the net provision for unearned premiums	4,002	(2,092)
Change in net deferred acquisition costs	(819)	439
Total adjustment to member's balances	**3,183**	**(1,653)**
FRS 102	**123,244**	**96,018**

Unearned premium reserves and deferred acquisition costs

FRS 103 requires that all assets and liabilities arising from an insurance contract are treated as monetary items for foreign currency translation purposes, and as such are now recorded in the balance sheet at closing rates of exchange. Previously, balances such as unearned premiums and deferred acquisition costs were treated as non-monetary items, and recorded in the balance sheet at the rate of exchange prevailing at the date of the original transaction. This change had the impact of increasing member's balances by £3.2m upon transition and decreasing profit by £4.8m for the year ended 31 December 2014.