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Annual Report and Accounts 2016

Syndicate 1880
Managed by Tokio Marine Kiln Syndicates Limited

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Annual accounts under UK Generally Accepted Accounting Practice

Directors, Active Underwriter and administration

Managing agent

Tokio Marine Kiln Syndicates Limited

Directors

Richard Bennison (Chairman)	
Charles Franks (Chief Executive Officer)	
Bruce Bowers (non-executive)	Appointed 19/2/2016 Resigned 31/10/2016
Richard Bucknall (non-executive)	Appointed 11/2/2016
David Constable (non-executive)	
Rosemary Harris (non-executive)	
Anthony Hulse (non-executive)	Appointed 15/2/2016
Paul Culham	
James Dover	
Denise Garland	
Andrew Hitchcox	
Yusuke Otsuka	Appointed 28/1/2016 Resigned 31/3/2016
Shinji Urano	Appointed 15/7/2016

Company Secretary

Fiona Molloy

Active Underwriter

Satoshi Naganuma

Registered office

20 Fenchurch Street
London EC3M 3BY

Registered number

729671

Bankers

Barclays Bank plc
Citibank, N.A.
Royal Bank of Canada
J.P. Morgan Europe Limited
Lloyds Bank plc
HSBC Bank plc

Investment managers

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

New England Asset Management Limited
The Oval-Block 3, Ballsbridge
Dublin 4, Ireland

Statutory auditor

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

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 2016 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 closed 2014 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 2016 calendar year is a profit of £18.3m (2015: £15.5m) against gross written premium of £230.4m (2015: £184.0m) and net earned premium of £175.7m (2015: £150.7m).

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 commercial property and 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 entities.

Syndicate 1880 reported an increased top-line in 2016, despite the continued difficult market conditions which affected several parts of the book. Although an element of this was attributable to the depreciation of the pound, underlying growth was achieved through the business written in parallel to Syndicate 510, the treaty reinsurance portfolio in Asia, continued development of the strategic investment held in US-based coverholder NAS Insurance Services, Inc. (NAS) and the engineering book.

Integration

Tokio Marine Kiln (TMK) completed the final stage of its integration during the second half of 2016 with the restructuring of its underwriting divisions along sector lines. This has brought together TMK's underwriting platforms with underwriters now capable of writing on both platforms in accordance with a set of agreed protocols.

Outlook

As a result of the underwriting restructure, the business written by Syndicate 1880 will now be more closely aligned with that written by TMK's combined Syndicate 510. The integration will offer growth opportunities alongside Syndicate 510 where market conditions allow. In addition, the syndicate will continue to develop and grow its engineering class of business as well as its existing strategic partnerships. It will continue to seek further strategic initiatives to add to the portfolio.

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

	2016 £'000s	2015 £'000s
Gross written premium	**230,378**	184,009
Net earned premium	**175,742**	150,705
Result for the financial year	**18,339**	15,469
Claims ratio	**52%**	47%
Combined ratio	**90%**	91%

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 95% (2015: 89%).

The net claims ratio has increased as the syndicate incurred a greater level of catastrophe losses compared to the prior year, following Hurricane Matthew and the Canadian Wildfires. Although 2015 was relatively benign from a catastrophe perspective, it did suffer a high level of large losses, which has not been repeated in 2016. The combined ratio is just below that of the prior year, reflecting the benefit of a profit on exchange.

The significant foreign exchange gain reported in 2016 reflects the weakening of the pound sterling post the Brexit referendum in June 2016. The gain recognised predominantly comprises gains on non-sterling settlement currency assets held to back distributable profits, primarily US dollars.

Principal risks and uncertainties

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

We focus largely 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 complies 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 set for each member operate on a similar basis. Each member’s SCR is therefore 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.

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 member’s balances on each syndicate on which it participates.

Accordingly all of the assets less liabilities of the syndicate, as represented in the member’s balances reported on the balance sheet on page 17, represent resources available to meet member’s and Lloyd’s capital requirements. The capital uplift applied for 2017 is 35% of the member’s SCR ‘to ultimate’.

Capital allocation

TMK has an approved internal model which 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

This is 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

This is 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. TMK have adopted a cyber aggregate monitoring tool to manage the growing exposures in this area.

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

Reinsurance risk

This is 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

This is 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

This is 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

This is 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 to comply with 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 direct 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

This is 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 from its major reinsurers.

Agency risk

This is 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.

As a dual platform business, with an integrated underwriting function, TMK manages potential conflicts of interest between capital providers using TMK’s Business Acceptance Protocols. These protocols govern business not constrained by licence or customer preference. Any proposed exceptions to the protocols must be approved by TMK’s Conflicts Committee before a risk is bound.

Operational risk

This is 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 regular basis with departmental heads responsible for identifying, assessing and controlling operational risks effectively. To assist with this, all departments have in place an Internal Control Framework, documenting their controls. These controls are independently assessed on an annual basis by the Risk Management team.

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 through the Operations Committee, and the Risk and Compliance Committee also reviews the most material elements of the operational risk profile quarterly, in line with the risk management framework. Particular attention is paid to how the risks from cyber security threats are managed by the Information Security Group.

Regulatory risk

This is 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.

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 ensure compliance with them.

Conduct risk

This is 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 they 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

This 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.

Reputational risk is included in the syndicate's Risk Register and risk assessment process. It is reported on the quarterly basis as part of the ORSA process to the Executive Risk Committee and the Risk and Compliance Committee.

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. Emerging risk analysis is included in the TMK quarterly and annual ORSA process. 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.

Future business risk

This is 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 increased uncertainty in financial markets post Brexit.
- Increased uncertainty in the wider geo political environment e.g. US protectionism.
- 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 and the Risk and Compliance Committee.

Directors

The directors of the managing agent who served during the year ended 31 December 2016 are listed under the section 'Directors, Active Underwriter and administration' on page 3.

Disclosure of information to the auditor

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 auditor in connection with its report, of which the auditor is unaware. Having made enquiries of fellow directors of the managing agent and the syndicate's auditor, 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 auditor is aware of that information.

Reappointment of auditor

The board approved the reappointment of PricewaterhouseCoopers LLP as auditor 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
17 March 2017

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 financial statements 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 syndicate annual accounts.

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

Our opinion

In our opinion, 1880's syndicate annual accounts (the "syndicate annual accounts"):

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2016 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 2016, 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 2016;
- the statement of changes in member's balances;
- the statement of cash flows;
- 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 underwriting year 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 the 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 as a body 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

17 March 2017

Statement of comprehensive income: technical account - general business
for the year ended 31 December 2016

	Note	2016 £'000s	2015 £'000s
Earned premiums, net of reinsurance			
Gross premiums written	2	**230,378**	184,009
Outward reinsurance premiums		**(46,800)**	(28,480)
Net premiums written		**183,578**	155,529
Change in the provision for unearned premiums:			
Gross amount		**(17,916)**	(12,158)
Reinsurers' share		**10,080**	7,334
Change in the net provision for unearned premiums		**(7,836)**	(4,824)
Earned premiums, net of reinsurance		**175,742**	150,705
Allocated investment return transferred from the non-technical account		**658**	702
Claims incurred, net of reinsurance			
Claims paid:			
Gross amount		**(61,990)**	(43,933)
Reinsurers' share		**4,081**	6,943
Net claims paid		**(57,909)**	(36,990)
Change in the provision for claims:			
Gross amount		**(37,331)**	(28,831)
Reinsurers' share		**4,097**	(5,028)
Change in the net provision for claims		**(33,234)**	(33,859)
Claims incurred, net of reinsurance		**(91,143)**	(70,849)
Member's standard personal expenses		**(9,208)**	(5,140)
Net operating expenses	3,4,5	**(66,219)**	(58,363)
Balance on the technical account for general business		**9,830**	17,055

All operations are continuing.

Statement of comprehensive income: non-technical account for the year ended 31 December 2016

	Note	2016 £'000s	2015 £'000s
Balance on the general business technical account		**9,830**	17,055
Investment income	6	**2,433**	3,147
Investment expenses and charges	6	**(426)**	(1,266)
Net unrealised losses on investments	6	**(1,349)**	(435)
Allocated investment return transferred to the general business technical account	6,7	**(658)**	(702)
Profit/(loss) on exchange		**8,509**	(2,330)
Profit for the financial year		**18,339**	15,469

There is no other comprehensive income.

Balance sheet: assets as at 31 December 2016

	Note	2016 £'000s	2015 £'000s
Investments			
Other financial investments	8	**186,142**	130,501
Reinsurers' share of technical provisions			
Provision for unearned premiums	9	**25,221**	12,509
Claims outstanding	9,10	**27,482**	19,719
		52,703	32,228
Debtors			
Debtors arising out of direct insurance operations	11	**65,643**	54,492
Debtors arising out of reinsurance operations		**118,821**	70,405
Other debtors		**4,032**	2,797
		188,496	127,694
Other assets			
Cash at bank and in hand		**3,923**	876
Overseas deposits	12	**16,069**	12,041
		19,992	12,917
Prepayments and accrued income			
Deferred acquisition costs	13	**35,752**	26,571
Other prepayments and accrued income		**767**	703
		36,519	27,274
Total assets		**483,852**	**330,614**

Balance sheet: liabilities as at 31 December 2016

	Note	2016 £'000s	2015 £'000s
Capital and reserves			
Member's balances		**23,232**	10,905
Technical provisions			
Provision for unearned premiums	9	**127,543**	93,330
Claims outstanding	9,10	**232,724**	167,948
		360,267	261,278
Creditors			
Creditors arising out of direct insurance operations	14	**6,732**	5,819
Creditors arising out of reinsurance operations		**73,647**	43,845
Other creditors	15	**11,274**	5,000
		91,653	54,664
Accruals and deferred income			
Reinsurers' share of deferred acquisition costs	13	**8,700**	3,706
Other accruals and deferred income		**-**	61
		8,700	3,767
Total liabilities		**483,852**	330,614

The annual accounts, which comprise pages 14 to 40 and include the notes and principal accounting policies, were approved by the board of Tokio Marine Kiln Syndicates Limited on 9 March 2017 and were signed on its behalf by

Paul Culham

Chief Underwriting Officer

Tokio Marine Kiln Syndicates Limited

17 March 2017

Statement of changes in member's balances for the year ended 31 December 2016

	2016 £'000s	2015 £'000s
Member's balances brought forward at 1 January	**10,905**	96,018
Profit for the financial year	**18,339**	15,469
Payments of profit to member's personal reserve funds	**(5,990)**	(26,613)
Funds in Syndicate	**(22)**	(73,969)
Member's balances carried forward at 31 December	**23,232**	10,905

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 2016

	Note	2016 £'000s	2015 £'000s
Cash flows from operating activities:			
Operating profit on ordinary activities		**18,339**	15,469
Increase in gross technical provisions		**98,989**	49,734
(Increase) in reinsurers' share of technical provisions		**(20,475)**	(3,876)
(Increase) in debtors		**(70,047)**	(30,142)
Increase/(decrease) in creditors		**41,922**	(12)
Unrealised foreign currency (gains)		**(23,886)**	(6,847)
Investment return		**(658)**	(702)
Net cash inflow from operating activities		**44,184**	23,624
Cash flows from investing activities:			
Purchase of shares and other variable yield securities		**-**	(7,841)
Sale of shares and other variable yield securities		**5,714**	-
Purchase of debt securities and other fixed income securities		**(262,814)**	(227,888)
Sale of debt securities and other fixed income securities		**226,928**	304,886
Purchase of derivatives		**(80)**	-
Sale of derivatives		**-**	171
Investment income received		**2,124**	1,265
Other		**(1,466)**	(563)
Net cash (outflow)/inflow from investing activities		**(29,594)**	70,030
Cash flows from financing activities:			
Transfer to member in respect of underwriting participations		**(5,990)**	(26,613)
Funds in Syndicate released to member		**(22)**	(73,969)
Net cash (outflow) from financing activities		**(6,012)**	(100,582)
Net increase /(decrease) in cash and cash equivalents		**8,578**	(6,928)
Cash and cash equivalents at beginning of year		**12,917**	19,947
Foreign exchange gains/(losses) on cash and cash equivalents		**607**	(102)
Cash and cash equivalents at end of year		**22,102**	12,917
Cash and cash equivalents consists of:			
Cash at bank and in hand		**3,923**	876
Overseas deposits	12	**16,069**	12,041
Short-term deposits presented within other financial investments		**2,110**	-
Cash and cash equivalents at end of year		**22,102**	12,917

Notes to the accounts and principal accounting policies as at 31 December 2016

1. Accounting policies and use of critical accounting estimates and judgements in applying accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

a) Statement of compliance

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). The general business results are determined on the annual basis of accounting.

These financial statements are prepared under the historical cost convention, as modified by the recognition of certain financial assets and liabilities measured at fair value.

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

The preparation of the syndicate's annual accounts requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the syndicate's accounting policies. 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 disclosed 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, lineslips 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 the 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 gross premiums written which is 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	
	2016	2015	2016	2015
US dollar	1.35	1.53	1.24	1.47
Canadian dollar	1.79	1.95	1.66	2.05

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.

j) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts, when applicable, are shown within borrowings in current liabilities.

k) Investments

The syndicate has chosen to adopt Sections 11 and 12 of FRS 102 in respect of financial instruments.

The syndicate classifies its financial assets held for investment purposes (investments) into 'shares and other variable-yield securities', 'debt securities and other fixed-income securities' and 'deposits with credit institutions' – 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.

An investment 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 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 and floating 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 classified as 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.

l) 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.

m) 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 fair value at the previous balance sheet date, or purchase price if acquired during the year. Unrealised gains and losses on investments represent the difference between the fair value at the balance sheet date and the fair value at the previous balance sheet date, or purchase price if acquired during the year.

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.

n) 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.

o) Financial assets

Basic financial assets, including receivables and cash at bank and in hand, are initially recognised at transaction price.

Such assets are subsequently carried at amortised cost using the effective interest method. At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired, the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in the statement of comprehensive income.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party or (c) despite having retained some significant risks and rewards of ownership, control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

p) **Financial liabilities**

Basic financial liabilities, including payables, are initially recognised at transaction price.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expired.

q) 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.

r) 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.

s) 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.

t) Contingencies

Contingent liabilities arise as a result of past events when either it is not probable that there will be an outflow of resources or that the amount cannot be reliably measured at the reporting date or when the existence will be confirmed by the occurrence or non-occurrence of uncertain future events not wholly within the syndicate’s control. Contingent liabilities are disclosed in the financial statements unless the probability of an outflow of resources is remote.

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 2016	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	**394**	**1,097**	**(613)**	**(473)**	**2**	**13**	**664**
Marine, aviation and transport	**5,742**	**5,705**	**(3,299)**	**(1,096)**	**(348)**	**962**	**9,030**
Fire and other damage to property	**129,026**	**118,627**	**(68,239)**	**(41,138)**	**(17,534)**	**(8,284)**	**159,971**
Third party liability	**22,960**	**21,587**	**(5,946)**	**(10,602)**	**(1,282)**	**3,757**	**19,978**
	158,122	**147,016**	**(78,097)**	**(53,309)**	**(19,162)**	**(3,552)**	**189,643**
Reinsurance acceptances	**72,256**	**65,446**	**(21,224)**	**(29,495)**	**(2,003)**	**12,724**	**117,921**
	230,378	**212,462**	**(99,321)**	**(82,804)**	**(21,165)**	**9,172**	**307,564**

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

All business was concluded in the UK.

The total commission payable on direct business was £47,379,562 (2015: £44,826,817).

The geographical analysis of premium by location of the client is as follows. The basis of determining the location of the client was revised for the year ended 31 December 2016, and as such the prior year figures have been re-presented on a comparable basis.

	2016 £'000s	2015 £'000s
UK	**15,142**	14,112
Other EU countries	**6,683**	9,276
US	**136,149**	111,417
Canada	**12,594**	10,246
Other	**59,810**	38,958
	230,378	184,009

3. Net operating expenses

	2016 £'000s	2015 £'000s
Acquisition costs	**65,123**	55,928
Change in deferred acquisition costs	**(4,725)**	(7,845)
Administrative expenses	**13,198**	11,891
Gross operating expenses	**73,596**	59,974
Reinsurance commissions receivable	**(7,377)**	(1,611)
	66,219	58,363

Included within administrative expenses is auditor's remuneration:

	2016 £'000s	2015 £'000s
Audit services:		
Fees payable to the syndicate's auditor for the audit of the syndicate annual accounts	**62**	64
Other services:		
Other services pursuant to legislation	**139**	134
	201	198

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.

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:

	2016 £'000s	2015 £'000s
Wages and salaries	**4,176**	4,532
Social security costs	**491**	491
Other pension costs	**239**	209
	4,906	5,232

£79,862 (2015: £54,794) 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:

	2016	2015
Administration and finance	**31**	29
Underwriting	**10**	14
Claims	**4**	4
	45	47

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, 44 (2015: 46) 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 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:

	2016	2015
	£'000s	£'000s
Emoluments	**335**	330
	335	330

Of the above amount £174,656 (2015: £156,254) 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:

	2016	2015
	£'000s	£'000s
Emoluments	**55**	53
	55	53

The profit commission included within the emoluments is in relation to the 2013 year of account (2015: 2012 YOA), as the allocation to underwriters was only determined following its closure.

6. Investment income and expenses

	2016 £'000s	2015 £'000s
Investment income:		
Income from investments	**2,134**	2,702
Realised gains on investments	**299**	445
Unrealised gains on investments	**36**	22
Investment expenses:		
Investment management expenses, including interest	**(117)**	(223)
Realised losses on investments	**(309)**	(1,043)
Unrealised losses on investments	**(1,385)**	(457)
	658	1,446

The above figures include nil (2015: £743,944) of investment income earned on cash and investments deposited into the syndicate by Tokio Marine Underwriting Limited as FIS, following the distribution of FIS to Tokio Marine Underwriting Limited in 2015.

7. Calendar year investment yield

	2016 £'000s	2015 £'000s
Average amount of syndicate funds during the year:		
Sterling fund	**8,825**	36,093
US dollar fund	**142,140**	133,399
Canadian dollar fund	**20,083**	13,286
Aggregate gross investment return:		
Before investment expenses	**775**	1,669
After investment expenses	**658**	1,446
Calendar year investment yield:	**%**	%
Before investment expenses	**0.5**	0.9
After investment expenses	**0.4**	0.8
Analysis of calendar year investment yield by fund:	**%**	%
Sterling fund	**1.4**	0.4
US dollar fund	**0.3**	0.9
Canadian dollar fund	**0.2**	1.0

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

8. Other financial investments

	Fair value		Purchase price	
	2016	2015	2016	2015
	£'000s	£'000s	£'000s	£'000s
Shares and other variable yield securities	**27,062**	27,582	**27,062**	27,582
Debt securities and other fixed income securities	**158,965**	102,886	**159,897**	103,068
Other investments	**115**	33	**-**	-
	186,142	130,501	**186,959**	130,650

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 2016 was £11,566,546 (2015: £8,076,493).

9. Reconciliation of insurance balances

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

	Gross		Reinsurers' share	
	2016	2015	2016	2015
	£'000s	£'000s	£'000s	£'000s
At 1 January	**93,330**	77,844	**(12,509)**	(4,765)
Premium written during the year	**230,378**	184,009	**(46,800)**	(28,480)
Premium earned during the year	**(212,462)**	(171,851)	**36,720**	21,146
Foreign exchange adjustments	**16,297**	3,328	**(2,632)**	(410)
At 31 December	**127,543**	93,330	**(25,221)**	(12,509)

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

	Gross		Reinsurers' share	
	2016	2015	2016	2015
	£'000s	£'000s	£'000s	£'000s
At 1 January	**167,948**	133,700	**(19,719)**	(23,587)
Claims incurred during the year	**99,321**	72,764	**(8,178)**	(1,915)
Claims paid during the year	**(61,990)**	(43,933)	**4,081**	6,943
Foreign exchange adjustments	**27,445**	5,417	**(3,666)**	(1,160)
At 31 December	**232,724**	167,948	**(27,482)**	(19,719)

10. Claims outstanding

Within the calendar year technical result, a surplus of £15.6m (2015: £3.9m) 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 six 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	2016 £m
Year 1	627.0	180.9	71.6	59.1	51.1	82.1
Year 2	631.8	206.0	98.5	97.9	90.7	
Year 3	564.8	208.8	101.7	94.1		
Year 4	558.4	205.7	97.9			
Year 5	551.5	203.5				
Year 6	544.9					
Cumulative claims paid	537.9	172.2	76.7	62.7	28.8	11.1
Outstanding claims reserve	7.0	31.3	21.2	31.4	61.9	71.0

Net of reinsurance

Year of Account	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m
Year 1	627.0	122.2	71.3	58.3	49.6	75.5
Year 2	626.6	159.0	98.0	96.2	87.3	
Year 3	564.8	161.7	101.3	90.8		
Year 4	554.4	159.3	97.6			
Year 5	547.0	157.7				
Year 6	540.8					
Cumulative claims paid	534.8	141.3	76.5	62.2	28.4	10.3
Outstanding claims reserve	6.0	16.4	21.1	28.6	58.9	65.2

11. Debtors arising out of direct insurance operations

	2016 £'000s	2015 £'000s
Amounts due from intermediaries within one year	**65,548**	54,456
Amounts due from intermediaries after one year	**95**	36
	65,643	54,492

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	
	2016	2015	2016	2015
	£'000s	£'000s	£'000s	£'000s
At 1 January	**26,571**	17,904	**(3,706)**	(1,073)
Expenses for the acquisition of insurance contracts deferred during the year	**65,123**	55,928	**(11,516)**	(4,131)
Amortisation	**(60,398)**	(48,083)	**7,377**	1,611
Foreign exchange adjustments	**4,456**	822	**(855)**	(113)
At 31 December	**35,752**	26,571	**(8,700)**	(3,706)

14. Creditors arising out of direct insurance operations

	2016	2015
	£'000s	£'000s
Amounts due to intermediaries within one year	**6,652**	5,819
Amounts due to intermediaries after one year	**80**	-
	6,732	5,819

15. Other creditors

The following balances are included within other creditors:

	2016	2015
	£'000s	£'000s
Forward currency contracts – held to maturity	**9**	30
	9	30

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 2016 was £5,647,349 (2015: £12,223,241). 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 2016 calendar year of £13,656,455 (2015: £10,604,819). Adjustments to reinstatement premium resulted in an inflow of outwards reinsurance premiums ceded of £221,098 (2015: £110,887). Claims paid to related parties during 2016 were £5,213,704 (2015: £4,419,994). The outstanding claims, including an element of IBNR, were £6,727,094 (2015: £7,247,657). Written premiums ceded by Syndicate 1880 to related parties for the 2016 calendar year were £8,983,167 (2015: £4,023,278). Paid recoveries from related parties during the period were £2,603,687 (2015: £9,706,433). Unpaid recoveries at the period end amounted to £669,161 (2015: nil) and future recoveries on outstanding claims, including an element of IBNR, were £18,624,102 (2015: £17,632,136).

Treaty profit commission paid to related parties for the 2016 calendar year was nil (2015: £1,761,996) and treaty profit commission payable as at the balance sheet date was nil (2015: payable £134,118).

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 Tokio Marine 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 within the Tokio Marine Kiln Group and NAS Insurance Services, Inc. which is 49% owned within the Tokio Marine Kiln Group. Profit commission on inwards business of £2,429,480 was paid to related parties for the 2016 calendar year (2015: £1,351,450) and profit commission payable as at the balance sheet date was nil (2015: £1,680,432).

Profit commission of £6,730,265 is payable by the syndicate to Tokio Marine Kiln Syndicates Limited in respect of the 2016 calendar year (2015: £2,841,012). 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 (2015: £2,700,000) were paid by the syndicate to Tokio Marine Kiln Syndicates Limited. In addition to this, expenses of £10,228,860 (2015: £10,067,809) 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 5 to 10.

(a) Insurance risk

Further details on the management of the syndicate's insurance risk are given on page 6.

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.

2016	Gross claims provision £'000s	Reinsurance claims provision £'000s	Net claims provision £'000s
Direct insurance:			
Accident and health	**532**	**(1)**	**531**
Marine, aviation and Transport	**6,891**	**(2,052)**	**4,839**
Fire and other damage to property	**116,860**	**(17,826)**	**99,034**
Third party liability	**9,880**	**-**	**9,880**
	134,163	**(19,879)**	**114,284**
Reinsurance acceptances	**98,561**	**(7,603)**	**90,958**
	232,724	**(27,482)**	**205,242**

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

The following table sets out the concentration of gross claims provision by geographical location. The basis of determining the geographical location was revised for the year ended 31 December 2016, and as such the prior year figures have been re-presented on a comparable basis.

	2016	2015
	£'000s	£'000s
UK	**17,785**	10,859
Other EU countries	**8,441**	5,856
US	**119,132**	95,027
Other	**87,366**	56,206
Gross claims provision	**232,724**	167,948

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 £2.1m (2015: £1.7m) 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 (2015: £0.4m). A decrease of 1% would result in £2.1m (2015: £1.7m) less premium being reported and an estimated £0.4m (2015: £0.4m) 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 2016 is 52% (2015: 47%). 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 £1.8m (2015: £1.5m) and the result reducing by £1.8m (2015: £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 7.

The following table provides information regarding credit risk exposures of the syndicate by classifying assets according to the blended credit ratings of the counterparties. 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. The basis of determining the credit rating was revised for the year ended 31 December 2016, and as such the prior year figures have been re-presented on a comparable basis.

2016	AAA £'000s	AA £'000s	A £'000s	<A £'000s	NR £'000s	Total £'000s
Financial investments:						
Other financial investments	**62,654**	**68,841**	**37,341**	**11,742**	**5,564**	**186,142**
Overseas deposits	**3,759**	**2,424**	**1,037**	**8,847**	**2**	**16,069**
Cash at bank and in hand	**-**	**-**	**3,923**	**-**	**-**	**3,923**
Reinsurers' share of outstanding claims including reinsurers' IBNR	**18,685**	**4,029**	**3,213**	**-**	**1,555**	**27,482**
Reinsurance recoverable on paid claims neither due nor impaired	**381**	**191**	**112**	**-**	**-**	**684**
	85,479	**75,485**	**45,626**	**20,589**	**7,121**	**234,300**

2015	AAA £'000s	AA £'000s	A £'000s	<A £'000s	NR £'000s	Total £'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

The total reinsurers' share of outstanding claims including reinsurers' IBNR includes collateral held as security, which comprises letters of credit and trust accounts totalling US$476.4m (2015: nil).

The largest potential reinsurer credit exposure to the syndicate at 31 December 2016 was 30.43% with Tokio Marine & Nichido Fire Insurance Co., Ltd., which is an A+ rated security (2015: 22.57% with Tokio Marine Kiln Insurance Limited, A rated security). The Reinsurance Security Committee of the managing agent reviews the level of this exposure and takes appropriate action where necessary. This includes requesting a letter of credit for all reinsurers, related parties included.

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

2016	Fully performing £'000s	Past due £'000s	Impairment £'000s	Total £'000s
Financial investments:				
Other financial investments	**186,142**	**-**	**-**	**186,142**
Overseas deposits	**16,069**	**-**	**-**	**16,069**
Cash at bank and in hand	**3,923**	**-**	**-**	**3,923**
Reinsurers' share of outstanding claims including reinsurers' IBNR	**27,482**	**-**	**-**	**27,482**
Insurance debtors	**56,633**	**9,010**	**-**	**65,643**
Reinsurance recoverable on paid claims	**684**	**552**	**-**	**1,236**
Other debtors	**183,357**	**-**	**-**	**183,357**
	474,290	**9,562**	**-**	**483,852**

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	44,495	9,997	-	54,492
Other debtors	112,985	-	-	112,985
	320,617	9,997	-	330,614

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 2016 the balance held in these trust funds was US$72.5m (2015: US$105.6m) and Canadian $27.6m (2015: Canadian $22.2m).

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.

2016	Up to 1 year £'000s	1-3 years £'000s	3-5 years £'000s	Over 5 years £'000s	Total £'000s
Financial liabilities:					
Forward currency contracts	**9**	**-**	**-**	**-**	**9**
Creditors	**90,679**	**965**	**-**	**-**	**91,644**
	90,688	**965**	**-**	**-**	**91,653**
Claims outstanding	**120,827**	**73,046**	**22,507**	**16,344**	**232,724**
Financial Liabilities and claims outstanding	**211,515**	**74,011**	**22,507**	**16,344**	**324,377**

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	49,382	5,252	-	-	54,634
	49,412	5,252	-	-	54,664
Claims outstanding	85,747	54,094	16,472	11,635	167,948
Financial liabilities and claims outstanding	135,159	59,346	16,472	11,635	222,612

Foreign currency market risk

For further details of the management of the syndicate's market risk please refer to page 7.

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 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 Chief Financial Officer. Strategy is recommended by the Finance Group and agreed 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 assurance that foreign currency risk mitigation initiatives undertaken by the syndicate will be successful in preventing any losses due to such changes.

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 and net assets. 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 gives an indication of the impact on the result and net assets of a ten percent change in the relative strength of the pound sterling against the value of the US dollar and Canadian dollar, excluding the effects of hedges.

	2016 £'000s	2015 £'000s
Sterling strengthens 10% against US dollar	**(7,053)**	(5,171)
Sterling strengthens 10% against Canadian dollar	**241**	(278)
Sterling weakens 10% against US dollar	**8,620**	6,320
Sterling weakens 10% against Canadian dollar	**(295)**	339

Interest rate market risk

For further details of the management of the syndicate's market risk please refer to page 7.

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. 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.

	2016	**2015**
	£'000s	**£'000s**
Impact of 50 basis point increase on result	**(1,360)**	(545)
Impact of 50 basis point decrease on result	**1,381**	502
Impact of 50 basis point increase on net assets	**(1,360)**	(545)
Impact of 50 basis point decrease on net assets	**1,381**	502

(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. The Financial Reporting Council amendments to FRS 102 fair value hierarchy disclosures have been adopted for the year ended 31 December 2016, and as such the prior year figures have been re-presented on a comparable basis.

- Level 1 financial instruments 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, money market and open-ended funds. These fair values have been derived from market observable inputs.
- The fair value for level 3 financial instruments is derived from inputs that are not observable. Level 3 securities include securitised instruments the fair value of which are based on broker quotes and a pricing vendor model.

	£'000s			
2016	**Level 1**	**Level 2**	**Level 3**	**Total**
Derivative financial instruments:				
Forward currency derivatives – assets	**115**	**-**	**-**	**115**
Forward currency derivatives – liabilities	**(9)**	**-**	**-**	**(9)**
Shares and other variable yield securities	**-**	**27,062**	**-**	**27,062**
Debt securities and other fixed income securities	**46,123**	**111,258**	**1,584**	**158,965**
Loans and deposits with credit institutions	**12,390**	**3,679**	**-**	**16,069**
	58,619	**141,999**	**1,584**	**202,202**

	£'000s			
2015	**Level 1**	**Level 2**	**Level 3**	**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	52,817	553	102,886
Loans and deposits with credit institutions	8,806	3,235	-	12,041
	58,325	83,634	553	142,512

At 31 December 2016 the syndicate held forward currency contracts for which the fair value is a net asset of £106,532 (2015: £3,602) with the gain going through investment income in the statement of comprehensive income.