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TOKIO MARINE
KILN

Annual Report and Accounts 2019

Syndicate 1880
Managed by Tokio Marine Kiln
Syndicates Limited

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Directors, Active Underwriter and administration

Managing agent

Tokio Marine Kiln Syndicates Limited

Directors

Richard Bennison (Chairman)	Resigned 31/12/2019
David Constable (Non-executive)	Resigned 31/03/2019
Paul Culham	Resigned 30/09/2019
Charles Franks (Chief Executive Officer)	Resigned 31/12/2019
Rosemary Harris (Non-executive)	
Brian Heffernan	Resigned 13/02/2019
Brad Irick (Chief Executive Officer)	Appointed 10/10/2019
Chisato Kojima (Non-executive)	Appointed 22/03/2019
Anna McNamara	
Christopher Moulder (Non-executive)	Appointed 25/03/2019
Reeken Patel	Appointed 25/02/2019
Hans-Dieter Rohlf (Non-executive)	Appointed 07/10/2019
Vivek Syal	
Andrew Torrance	
Shinji Urano	Resigned 31/12/2019
Christopher Williams (Non-executive)	Appointed 22/03/2019

Company Secretary

Fiona Molloy

Active Underwriter

Paul Culham to 30/09/2019

Mark Mortlock from 01/10/2019

Registered office

20 Fenchurch Street
London EC3M 3BY

Registered number

729671

Bankers

Barclays Bank plc
Citibank, N.A.
Lloyds Bank plc
Royal Bank of Canada

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 auditors

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 2019 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 2017 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 2019 calendar year is a loss of £18.6m (2018: profit of £0.7m). The syndicate's key financial performance indicators during the year were as follows:

	2019	2018
	£m	£m
Gross written premium	319.4	271.4
Net earned premium	255.9	218.5
Result for the financial year	(18.6)	0.7
Claims ratio	71%	60%
Combined ratio	111%	100%

Principal activity

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

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 property, engineering and cyber 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; and
- to reinsure Tokio Marine Kiln-managed entities.

Review of the business

The syndicate reinsures risks from Syndicate 510 and other Tokio Marine Kiln-managed entities, as well as writing other Third Party, Large Commercial Property and Engineering business.

Gross written premium for the year was £319.4m (2018: 271.4m) producing a loss of £18.6m (2018: profit of £0.7m) and a combined ratio of 111% (2018: 100%). Premium growth was focused in core strategic classes including Large Commercial Property and also in Construction and Private Flood business, which was written through Tokio Marine Kiln's wholly owned coverholder, WNC. The syndicate reduced premium in poorer performing classes such as Crop and Asia pro-rata business and exited the London Engineering class as part of ongoing portfolio management.

The net claims ratio of 71% (2018: 60%) reflects the poor performance across the London Engineering book, which has now been exited and a number of large losses on the WNC construction account where active portfolio management has taken place throughout the year. The syndicate also experienced catastrophe losses from weather events including the Indian Monsoon Season and the Australian Bushfires, which significantly impacted the Crop pro-rata account. These losses more than offset some of the positive performance from Large Commercial Property and Private Flood business which continues to perform well.

Outlook

The syndicate remains focused on profitable growth in core strategic classes. This will be achieved both organically from larger line sizes and through attractively rated new business opportunities. Future growth is likely to be driven by US Property business and from utilising both new and organic opportunities presented via WNC. However, we remain committed to delivering improved profitability; growth targets will only be met if market conditions and rating adequacy supports this.

Principal risks and uncertainties

Our business model remains consistent: we are specialist underwriters, providing a wide variety of products tailored to our clients' changing risk profile. This is supported by a comprehensive, enterprise wide framework for the management of risk across the whole of Tokio Marine Kiln ("TMK"). We focus largely on 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 prudent in all areas of financial risk management, such as investment management and reserving. This allows us to protect our capital 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 Solvency II.

Within this supervisory framework, Lloyd's applies capital requirements at member level and centrally to ensure that Lloyd's complies with 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 member level only, not at syndicate level. Accordingly, the capital requirement at syndicate level 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 supported by 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 total capital requirement is therefore determined by the share of each syndicate's SCR 'to ultimate' on which they participate. 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 rather than 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 through assets held in trust by Lloyd's specifically for that member (Funds at Lloyd's) 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 18, represent resources available to meet member's and Lloyd's capital requirements. The Lloyd's set market-wide capital uplift applied for 2019 to derive the ECA is 35% of the SCR 'to ultimate'.

Capital allocation

We have an approved internal model which is used to calculate capital requirements, allocate capital to business lines and risk categories and assess the value of different business and 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 capital is required to support the insurance underwriting risk.

Risk management and risk appetite

We have a comprehensive, enterprise wide risk management framework in place for the management of risk across the whole of TMK. A key element of this is the risk appetite framework which is approved by the board each year and lays out the agreed appetite for each area of risk the business is exposed to.

The risk appetite framework ensures that risk taking is aligned to the business strategy by including a set of risk preferences. These are strategic choices taken by the business to deliver the best result to its stakeholders. These preferences change over time as the strategy develops, ensuring we remain relevant to our clients, whilst adapting to market conditions.

As a business, we are exposed to a number of types of risk and have developed a strategy for categorising, managing and reporting these different risks. This high-level categorisation is called the TMK Risk Universe. We define the risk universe as 'the complete view of all possible types of risk that the firm may face, reflecting the risk profile of the business'. The universe includes risks that could positively or negatively impact the business.

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 several categories which include underwriting risk, reinsurance risk and reserving risk.

Due to the cyclical nature of insurance business, there is a risk that future earnings are lower or more volatile than expected with fluctuations in capacity, competition and the frequency and severity of losses, as a result of both man-made and natural disasters.

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 annually through the risk appetite framework and 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. Catastrophe modelling software is used to model maximum probable losses from catastrophe-exposed business and as part of the realistic disaster scenario (RDS) process. We have adopted a cyber aggregate monitoring tool to manage the growing exposures in this area.

As an underwriter of complex and specialist insurance business, ensuring compliance with licencing and other regulatory requirements is a priority for TMK. This is overseen by the Underwriting Governance Committee (UGC). The UGC also oversees adherence to our internal standards for delegated authority arrangements.

A significant proportion of the syndicate's business is written through delegated authorities. A dedicated Delegated Authorities team provides operational and regulatory oversight of our coverholders and third party administrators, carrying out annual due diligence, an ongoing schedule of audits and management of 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. The risk is heightened if there is a lack of reinsurance or retrocession availability in the market.

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.

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' and claim managers' 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.

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. Claims run-off tables are used to monitor the history of reserve adequacy, and these show a trend of predominantly positive run-off since they were first prepared in 2001.

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 Outwards Reinsurance team. It assesses 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 by the Delegated Authority team. The Investment Committee regularly tracks and reviews our investment portfolio, which is outsourced to two investment managers.

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 our fund managers to review performance.

We regularly review our balance of assets and liabilities. The syndicate maintains a diversified investment portfolio (including an immaterial exposure to equities through investment in an absolute return fund) to restrict the concentration of assets.

Market risk is currently monitored regularly in accordance with the TMK risk appetite framework. Various external factors can impact our market/investment risk position and these are assessed via the ORSA process.

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 Executive Risk & Capital Committee 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. The syndicate also has the ability to make cash calls on its member in order to manage liquidity.

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 ongoing, 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, as well as attesting to the effectiveness of these controls on a regular basis. This forms the Risk, Control and Self-Assessment (RCSA) process at TMK, supported by the Risk Management Team who independently assess key risks and controls on a regular basis.

There is a strong risk reporting and risk governance system in place to ensure effective risk management of operational risk. The Executive Risk & Capital Committee and the Risk, Capital & Compliance Committee reviews the most material elements of the operational risk profile quarterly, in line with our risk management framework. Particular attention is paid to how the risks from cyber security threats are managed by the Information Security Group.

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 business with an integrated underwriting function, we manage potential conflicts of interest between capital providers using TMK's Underwriting Acceptance Protocols. These protocols, which have been shared with the member's agents, 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.

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 Financial Conduct Authority (FCA), PRA and Lloyd's, including those imposed on the Lloyd's market by overseas regulators, particularly in respect of US Situs business. The

Compliance function is responsible for monitoring compliance with regulation and monitoring of regulatory change. The Compliance framework outlines the broad regulatory and compliance structure that applies to all staff.

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 an important element of regulatory risk and is the risk of financial and/or service detriment which adversely affects our customers 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 held 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 all teams across TMK, 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 Risk, Capital and Compliance Committee.

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.

In light of this, all staff are made aware of their responsibilities to clients and other stakeholders. Reputational risk is included as a specific category in the syndicates' risk register and forms part of the regular risk assessment process, facilitated by the Risk Management team. It is reported on a quarterly basis as part of the ORSA process to the Executive Risk & Capital Committee and the Risk, Capital & Compliance Committee.

Strategic risk

Strategic risk refers to the risk associated with the achievement of the business' strategic objectives. A key element of strategic risk is the risk of making poor business decisions in the context of the internal and external market environment in which we operate.

Strategic risk is managed via the board which is ultimately responsible for setting and monitoring our strategic direction. Below the board, various sub-committees discuss and challenge the business' strategy. The Risk Management team facilitates our risk assessment process, including identification, assessment and mitigation of strategic risks. Reporting on these risks is included in the quarterly ORSA process to the Executive Risk & Capital Committee and the Risk, Capital & Compliance Committee.

Emerging risk

We define an emerging risk as 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, and may relate to issues which are changing rapidly or are uncertain.

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 we have done in the past, we will readily capitalise on identified opportunities in this area.

Political risk

This is the risk that political decisions, events or conditions will result in losses. Politics affect everything from taxes to interest rates and political events can heavily impact the structure of a business.

The current lack of clarity over Brexit continues to create uncertainty for the insurance industry. The main implication of Brexit for TMK is the loss of 'passporting rights' which allow us to conduct cross-border business throughout the European Economic Area (EEA).

Through 2018 we revised our internal operating model to successfully link our syndicates with the newly-created Lloyd's Brussels Subsidiary (LBS) in order to continue to provide products and services to clients with EEA risks. The work required is complete and our new model is now operational. We commenced writing business via LBS in the first quarter of 2019. We are currently defining the internal operating model for risks underwritten between 1993 and 2018 which will also transition to Lloyd's Brussels through a Part VII transfer by 31 October 2020.

We continue to monitor developments of Brexit very closely due to the remaining unknown economic and political implications.

Directors

The directors of the managing agent who served during the year ended 31 December 2019, as well as any subsequent changes, are listed 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 its 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

Brad Irick

Chief Executive Officer
Tokio Marine Kiln Syndicates Limited
5 March 2020

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') requires 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's 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 auditors' report to the member of Syndicate 1880

Report on the audit of the syndicate annual accounts

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 2019 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, (United Kingdom Accounting Standards comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland); and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

We have audited the syndicate annual accounts included within the Annual Report and Accounts 2019 (the "Annual Report"), which comprise: the balance sheet at 31 December 2019, the statement of comprehensive income, cash flow statement, the statement of changes in member's balances for the year then ended, the accounting policies, and the notes to the syndicate annual accounts, which include other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, as amended by The Statutory Auditors and Third Country Auditors Regulations 2017 and other applicable law.

Our responsibilities under ISAs (UK) are further described in the *Auditors' responsibilities for the audit of the syndicate annual accounts* section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the syndicate in accordance with the ethical requirements that are relevant to our audit of the syndicate annual accounts in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

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

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the syndicate's ability to continue as a going concern. For example, the terms of the United Kingdom's withdrawal from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the syndicate's business and the wider economy.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the syndicate annual accounts and our auditors' report thereon. The Managing Agent is responsible for the other information. Our opinion on the syndicate annual accounts does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance thereon.

In connection with our audit of the syndicate annual accounts, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the syndicate annual accounts or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the syndicate annual accounts or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Report of the directors of the managing agent (the "Managing Agent's Report"), we also considered whether the disclosures required by The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Managing Agent's Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Managing Agent's Report for the year ended 31 December 2019 is consistent with the syndicate annual accounts and has been prepared in accordance with The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

In light of the knowledge and understanding of the syndicate and its environment obtained in the course of the audit, we did not identify any material misstatements in the Managing Agent's Report.

Responsibilities for the syndicate annual accounts and the audit

Responsibilities of the Managing Agent for the syndicate annual accounts

As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 12, the Managing Agent is responsible for the preparation of the syndicate annual accounts in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Managing Agent is also responsible for such internal control as they determine is necessary to enable the preparation of syndicate annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the syndicate annual accounts, the Managing Agent is responsible for assessing the syndicate's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless it is intended for the syndicate to cease operations, or it has no realistic alternative but to do so.

Auditors' responsibilities for the audit of the syndicate annual accounts

Our objectives are to obtain reasonable assurance about whether the syndicate annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always

detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these syndicate annual accounts.

A further description of our responsibilities for the audit of the syndicate annual accounts is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinion, has been prepared for and only for the syndicate's members as a body in accordance with part 2 of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, as amended by The Statutory Auditors and Third Country Auditors Regulations 2017 and for no other purpose. We do not, in giving this opinion, 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.

Other required reporting

Other matters on which we are required to report by exception

Under The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, as amended by The Statutory Auditors and Third Country Auditors Regulations 2017, 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
- adequate accounting records have not been kept by the Managing Agent in respect of the syndicate; or
- certain disclosures of Managing Agent remuneration specified by law are not made; or
- the syndicate annual accounts are not in agreement with the accounting records.

We have no exceptions to report arising from this responsibility.

Matthew Nichols (Senior Statutory Auditor)

For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
5 March 2020

Statement of comprehensive income: technical account - general business for the year ended 31 December 2019

		2019	2018
	Note	£'000s	£'000s
Earned premiums, net of reinsurance			
Gross premiums written	2	319,399	271,409
Outward reinsurance premiums		(44,223)	(43,855)
Net premiums written		275,176	227,554
Change in the provision for unearned premiums:			
Gross amount		(11,838)	(7,163)
Reinsurers' share		(7,477)	(1,930)
Change in the net provision for unearned premiums		(19,315)	(9,093)
Earned premiums, net of reinsurance		255,861	218,461
Allocated investment return transferred from the non-technical account		7,416	2,792
Claims incurred, net of reinsurance			
Claims paid:			
Gross amount		(149,124)	(133,444)
Reinsurers' share		34,711	18,930
Net claims paid		(114,413)	(114,514)
Change in the provision for claims:			
Gross amount		(51,990)	(27,385)
Reinsurers' share		(14,502)	10,813
Change in the net provision for claims		(66,492)	(16,572)
Claims incurred, net of reinsurance		(180,905)	(131,086)
Member's standard personal expenses		(4,674)	(4,885)
Net operating expenses	3,4,5	(97,950)	(82,421)
Balance on the technical account for general business		(20,252)	2,861

All operations are continuing.

Statement of comprehensive income: non-technical account for the year ended 31 December 2019

		2019	2018
	Note	£'000s	£'000s
Balance on the general business technical account		(20,252)	2,861
Investment income	6	5,643	3,795
Unrealised gains on investments	6	2,225	377
Investment expenses and charges	6	(202)	(712)
Unrealised (losses) on investments	6	(250)	(668)
Allocated investment return transferred to the general business technical account	6,7	(7,416)	(2,792)
Profit/(loss) on exchange		1,656	(2,149)
(Loss)/profit for the financial year		(18,596)	712

There is no other comprehensive income.

Balance sheet: assets as at 31 December 2019

		2019	2018
	Note	£'000s	£'000s
Investments			
Other financial investments	8	190,539	153,484
Reinsurers' share of technical provisions			
Provision for unearned premiums	9	6,384	14,145
Claims outstanding	9,10	39,948	55,869
		46,332	70,014
Debtors			
Debtors arising out of direct insurance operations	11	83,985	82,028
Debtors arising out of reinsurance operations		244,968	193,101
Other debtors		3,834	1,929
		332,787	277,058
Other assets			
Cash at bank and in hand		691	1,967
Overseas deposits	12	18,995	20,868
		19,686	22,835
Prepayments and accrued income			
Deferred acquisition costs	13	44,403	41,554
Other prepayments and accrued income		46	84
		44,449	41,638
Total assets		633,793	565,029

Balance sheet: liabilities as at 31 December 2019

		2019	2018
	Note	£'000s	£'000s
Capital and reserves			
Member's balances		(6,398)	(7,324)
Technical provisions			
Provision for unearned premiums	9	147,695	140,903
Claims outstanding	9,10	350,458	309,154
		498,153	450,057
Creditors			
Creditors arising out of direct insurance operations	14	7,394	9,051
Creditors arising out of reinsurance operations		128,272	105,249
Other creditors	15	3,827	3,008
		139,493	117,308
Accruals and deferred income			
Reinsurers' share of deferred acquisition costs	13	1,694	4,113
Other accruals and deferred income		851	875
		2,545	4,988
Total liabilities		633,793	565,029

The annual accounts, which comprise pages 13 to 41 and include the notes and principal accounting policies, were approved by the board of Tokio Marine Kiln Syndicates Limited on 2 March 2020 and were signed on its behalf by

Reeken Patel

Chief Financial Officer

Tokio Marine Kiln Syndicates Limited

5 March 2020

Statement of changes in member's balances for the year ended 31 December 2019

	2019	2018
	£'000s	£'000s
Member's balances brought forward at 1 January	(7,324)	(37,109)
(Loss)/profit for the financial year	(18,596)	712
Payments of profit to member's personal reserve funds	-	(18,001)
Distribution loss collected	3,522	-
Cash calls made	17,588	47,074
Exchange differences arising on member's balances	(1,588)	-
Member's balances carried forward at 31 December	(6,398)	(7,324)

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 2019

		2019	2018
	Note	£'000s	£'000s
Cash flows from operating activities:			
Operating (loss)/profit on ordinary activities		(18,596)	712
Increase in gross technical provisions		48,096	55,746
Decrease/(increase) in reinsurers' share of technical provisions		23,682	(12,628)
(Increase) in debtors		(58,540)	(36,518)
Increase/(decrease) in creditors		19,742	(3,129)
Unrealised foreign currency losses/(gains)		926	(6,073)
Investment return		(7,416)	(2,792)
Net cash inflow/(outflow) from operating activities		7,894	(4,682)
Cash flows from investing activities:			
Purchase of shares and other variable yield securities		(25,128)	(4,602)
Purchase of debt securities and other fixed income securities		(92,936)	(119,494)
Sale of debt securities and other fixed income securities		79,612	97,185
Sale of derivatives		2	80
Investment income received		5,576	3,200
Other		796	(408)
Net cash (outflow) from investing activities		(32,078)	(24,039)
Cash flows from financing activities:			
Transfer from/(to) member in respect of underwriting participation		3,522	(18,001)
Cash calls made		17,588	47,074
Net cash inflow from financing activities		21,110	29,073
Net (decrease)/increase in cash and cash equivalents		(3,074)	352
Cash and cash equivalents at beginning of year		22,835	22,592
Foreign exchange (losses) on cash and cash equivalents		(75)	(109)
Cash and cash equivalents at end of year		19,686	22,835
Cash and cash equivalents consists of:			
Cash at bank and in hand		691	1,967
Overseas deposits	12	18,995	20,868
Cash and cash equivalents at end of year		19,686	22,835

Notes to the accounts and principal accounting policies as at 31 December 2019

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. These annual accounts are presented in pounds sterling, which is the syndicate's functional currency. All amounts have been rounded to the nearest thousand, unless otherwise stated.

b) Funds at Lloyd's

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

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

c) Critical accounting judgements and estimation uncertainty

The preparation of the syndicate's annual accounts requires the use of certain critical accounting estimates, judgements and assumptions. The directors consider the accounting policies for determining premium written, earned premiums, claims provisions, provision for unexpired risks and the valuation of investments as being most critical to an understanding of the syndicate's results and position. These are all discussed in more detail below in sections (e), (f), (g), (h), (l) and (m).

The most critical estimate included within the syndicate's balance sheet is the estimate for losses incurred but not reported. The total gross estimate is included within Claims outstanding liabilities on the balance sheet.

Estimates of losses incurred but not reported are continually evaluated, based on entity-specific historical experience and contemporaneous developments observed in the wider industry when relevant, and are also updated for expectations of prospective future developments. The procedures used in estimating the cost of settling insured losses at the balance sheet date including losses incurred but not reported are detailed below.

d) Going concern

Having assessed the principal risks, the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements.

e) 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.

f) 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.

g) 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 and regulatory 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.

In the event of catastrophe events, and prior to detailed claims information being available, claims provision estimates are compiled using a combination of output from catastrophe modelling software and detailed reviews of contracts with potential exposure to the event. Estimates are revised as more details become available from the claimants or brokers.

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. For the most recent year of accounts, loss ratios are generally estimated based on the historical performance of the account, expected rate and claim inflation change, and allowance for any changes in underwriting or business mix. These estimates are subject to rigorous review by senior management from all areas of the business and independent external actuaries.

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. These are estimated on a quarterly basis, and allow emerging trends to be identified and assist with business decisions.

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.

h) 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 risks provision is assessed on a 'managed together' basis. Unexpired risks surpluses and deficits are offset where business classes are managed together and a provision is made if an aggregate deficit arises.

i) 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.

j) 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	
	2019	2018	2019	2018
US dollar	1.28	1.34	1.32	1.27
Canadian dollar	1.69	1.73	1.72	1.74

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.

k) Cash and cash equivalents

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

l) 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', 'deposits with credit institutions' and 'other investments' – 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, bond exchange traded funds 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.

m) 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.

n) 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 has been wholly allocated to the technical account as all investments relate to the technical account.

o) 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.

p) 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.

q) Financial liabilities

Basic financial liabilities, including trade and other payables, bank loans, loans from fellow Group companies and preference shares that are classified as debt, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

r) 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.

s) Pension costs

Tokio Marine Kiln Syndicates Limited operates a defined contribution scheme. A defined contribution plan is a pension plan under which a fixed contributions is paid into a separate entity. Once the contributions have been paid the Group has no further payment obligations. Pension contributions relating to syndicate staff are charged to the syndicate and included within net operating expenses.

t) 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.

u) 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 2019	Gross premiums written £'000s	Gross premiums earned £'000s	Gross incurred claims £'000s	Gross operating expenses £'000s	Reinsurance balance £'000s	Total £'000s
Direct insurance:						
Accident and health	133	133	17	-	28	178
Marine, aviation and transport	3,310	4,152	256	(823)	(705)	2,880
Fire and other damage to property	200,308	189,049	(94,410)	(70,601)	(17,862)	6,176
Third party liability	31,217	29,196	(7,780)	(10,009)	(5,040)	6,367
	234,968	222,530	(101,917)	(81,433)	(23,579)	15,601
Reinsurance acceptances	84,431	85,031	(99,197)	(27,107)	(1,996)	(43,269)
	319,399	307,561	(201,114)	(108,540)	(25,575)	(27,668)

Year ended 31 December 2018	Gross premiums written £'000s	Gross premiums earned £'000s	Gross incurred claims £'000s	Gross operating expenses £'000s	Reinsurance balance £'000s	Total £'000s
Direct insurance:						
Accident and health	29	51	(38)	(1)	73	85
Marine, aviation and transport	5,239	5,816	318	(808)	(881)	4,445
Fire and other damage to property	163,054	161,016	(84,740)	(59,282)	(10,408)	6,586
Third party liability	23,189	23,084	(19,032)	(9,077)	(3,957)	(8,982)
	191,511	189,967	(103,492)	(69,168)	(15,173)	2,134
Reinsurance acceptances	79,898	74,280	(57,337)	(27,915)	8,907	(2,065)
	271,409	264,247	(160,829)	(97,083)	(6,266)	69

The total commission payable on direct business was £74,610,412 (2018: £61,145,540).

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

	2019	2018
	£'000s	£'000s
UK	5,107	12,424
Other EU countries	6,911	-
US	158,351	162,006
Canada	16,408	14,080
Other	132,622	82,899
	319,399	271,409

3. Net operating expenses

	2019	2018
	£'000s	£'000s
Acquisition costs	92,974	78,490
Change in deferred acquisition costs	(4,361)	(1,736)
Administrative expenses	15,253	15,443
Gross operating expenses	103,866	92,197
Reinsurance commissions and profit participations	(5,916)	(9,776)
	97,950	82,421

Included within administrative expenses is auditors' remuneration:

	2019	2018
	£'000s	£'000s
Audit services:		
Fees payable to the syndicate's auditor for the audit of the syndicate annual accounts	92	67
Other services:		
Other services pursuant to legislation	145	139
All other services	58	-
	295	206

The charge incurred for other services pursuant to legislation relates to the audit and review of the syndicate's regulatory returns and the provision of statement of actuarial opinion on the reserves. The charge incurred for all other services relates to the review of underwriting controls and model validations.

4. Staff numbers and costs

The syndicate and its managing agent have no employees. 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:

	2019	2018
	£'000s	£'000s
Wages and salaries	4,921	4,436
Social security costs	470	503
Other pension costs	296	279
	5,687	5,218

£38,506 (2018: £48,750) 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.

5. Emoluments of the directors and Active Underwriters

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:

	2019	2018
	£'000s	£'000s
Emoluments	323	392
	323	392

Of the above amount £211,416 (2018: £198,413) was charged to the syndicate as an expense, with the remainder borne by other group entities.

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

	2019	2018
	£'000s	£'000s
Emoluments	178	51
	178	51

The profit commission included within the emoluments is in relation to the 2016 year of account (2018: 2015 YOA), as the allocation to underwriters was only determined following its closure.

6. Investment income and expenses

	2019	2018
	£'000s	£'000s
Investment income:		
Income from investments	5,137	3,745
Realised gains on investments	506	50
Unrealised gains on investments	2,225	377
Investment expenses:		
Investment management expenses, including interest	(135)	(117)
Realised losses on investments	(67)	(595)
Unrealised losses on investments	(250)	(668)
	7,416	2,792

7. Calendar year investment yield

	2019	2018
	£'000s	£'000s
Average amount of syndicate funds during the year:		
Sterling fund	18,706	15,273
US dollar fund	165,722	127,121
Canadian dollar fund	21,204	24,588
Aggregate gross investment return:		
Before investment expenses	7,551	2,909
After investment expenses	7,416	2,792
Calendar year investment yield:	%	%
Before investment expenses	3.7	1.7
After investment expenses	3.6	1.7
Analysis of calendar year investment yield by fund:	%	%
Sterling fund	1.6	1.4
US dollar fund	4.0	1.7
Canadian dollar fund	2.2	1.6

The sterling fund balance includes investments held in all currencies other than US dollars and Canadian dollars.

8. Other financial investments

	Fair value		Purchase price	
	2019	2018	2019	2018
	£'000s	£'000s	£'000s	£'000s
Shares and other variable yield securities	45,896	20,270	45,896	20,270
Debt securities and other fixed income securities	144,619	133,187	141,336	132,355
Other investments	24	27	-	-
	190,539	153,484	187,232	152,625

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 2019 was £5,160,731 (2018: £748,817).

9. Reconciliation of insurance balances

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

	Gross		Reinsurers' share	
	2019	2018	2019	2018
	£'000s	£'000s	£'000s	£'000s
At 1 January	140,903	126,689	(14,145)	(15,292)
Premium written during the year	319,399	271,409	(44,223)	(43,855)
Premium earned during the year	(307,561)	(264,247)	51,700	45,785
Foreign exchange adjustments	(5,046)	7,052	284	(783)
At 31 December	147,695	140,903	(6,384)	(14,145)

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

	Gross		Reinsurers' share	
	2019	2018	2019	2018
	£'000s	£'000s	£'000s	£'000s
At 1 January	309,154	267,622	(55,869)	(42,094)
Claims incurred during the year	201,114	160,829	(20,209)	(29,743)
Claims paid during the year	(149,124)	(133,444)	34,711	18,930
Foreign exchange adjustments	(10,686)	14,147	1,419	(2,962)
At 31 December	350,458	309,154	(39,948)	(55,869)

10. Claims outstanding

Within the calendar year technical result, a deficit of £15.2m (2018: surplus of £3.8m) relates to the reassessment of net claims incurred for previous accident years.

The following table shows the development of gross and net claims incurred including IBNR and the claims handling provision over the last nine 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

	2010 and prior £m	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	2018 £m	2019 £m	Total £m
Year of Account											
Year 1		592.3	171.2	68.5	56.3	48.7	77.8	109.3	92.4	92.3	
Year 2		597.2	195.9	94.3	93.0	86.5	139.1	171.8	175.2		
Year 3		534.1	198.3	97.3	89.5	90.4	146.9	188.6			
Year 4		528.0	195.4	93.7	92.8	93.6	146.8				
Year 5		521.4	193.4	91.4	91.1	96.8					
Year 6		515.0	191.2	89.6	94.1						
Year 7		514.3	192.7	88.4							
Year 8		512.6	191.6								
Year 9		512.9									
Cumulative claims paid		510.2	178.9	80.5	74.0	69.8	113.9	126.1	75.0	10.4	
Outstanding claims reserve	2.6	2.7	12.7	7.9	20.1	27.0	32.9	62.5	100.2	81.9	350.5

Net of reinsurance

	2010 and prior £m	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	2018 £m	2019 £m	Total £m
Year of Account											
Year 1		592.3	116.1	68.2	55.6	47.3	71.5	90.7	77.2	88.9	
Year 2		592.3	151.7	93.9	91.4	83.4	120.9	151.3	147.4		
Year 3		530.4	154.0	97.0	86.4	84.3	119.7	166.1			
Year 4		524.2	151.8	93.4	89.6	86.3	119.8				
Year 5		517.2	150.4	91.1	86.2	87.5					
Year 6		511.2	150.1	89.1	89.1						
Year 7		510.7	150.7	88.0							
Year 8		508.9	149.7								
Year 9		509.2									
Cumulative claims paid		506.6	142.2	80.2	72.1	66.4	95.4	107.3	57.5	10.1	
Outstanding claims reserve	2.6	2.6	7.5	7.8	17.0	21.1	24.4	58.8	89.9	78.8	310.5

11. Debtors arising out of direct insurance operations

	2019	2018
	£'000s	£'000s
Amounts due from intermediaries within one year	83,463	81,647
Amounts due from intermediaries after one year	522	381
	83,985	82,028

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	
	2019	2018	2019	2018
	£'000s	£'000s	£'000s	£'000s
At 1 January	41,554	37,755	(4,113)	(5,504)
Expenses for the acquisition of insurance contracts deferred during the year	92,974	78,491	(3,579)	(8,145)
Amortisation	(88,613)	(76,755)	5,916	9,776
Foreign exchange adjustments	(1,512)	2,063	82	(240)
At 31 December	44,403	41,554	(1,694)	(4,113)

14. Creditors arising out of direct insurance operations

	2019	2018
	£'000s	£'000
Amounts due to intermediaries within one year	7,220	9,027
Amounts due to intermediaries after one year	174	24
	7,394	9,051

15. Other creditors

The following balances are included within other creditors:

	2019	2018
	£'000s	£'000s
Forward currency contracts – held to maturity	1	-
	1	-

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 2019 was £921,845 (2018: £1,585,789). 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 2019 calendar year of £4,904,921 (2018: £10,128,553). The outstanding claims (excluding IBNR) were £14,951,954 (2018: £22,598,002). Written premiums ceded by Syndicate 1880 to related parties for the 2019 calendar year were £20,536,721 (2018: £12,944,761). Paid recoveries from related parties during the period were £22,578,375 (2018: £8,076,859). Unpaid recoveries at the period end amounted to £6,136,806 (2018: £5,557,027) and future recoveries on outstanding claims (including IBNR) were £18,631,194 (2018: £30,903,591).

Treaty profit commission paid to related parties for the 2019 calendar year was £nil (2018: £nil) and treaty profit commission payable as at the balance sheet date was £nil (2018: £nil).

The syndicate received 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 received business through Tokio Marine Kiln Europe S.A. which was 100% owned by Tokio Marine Kiln Group Limited until its sale on 26 November 2019, WNC Insurance Services, Inc., whose parent WNC Holding Company, LP was 100% owned within the Tokio Marine Kiln Group as at 31 December 2019 and NAS Insurance Services, Inc. which was 49% owned within the Tokio Marine Kiln Group until its sale on 1 April 2019. Profit commission on inwards business of £499,513 was paid to related parties for the 2019 calendar year (2018: £3,149,133) and profit commission payable was £nil as at the balance sheet date (2018: £528,668).

Profit commission of £230,623 was payable by the syndicate to Tokio Marine Kiln Syndicates Limited in respect of the 2019 calendar year (2018: £528,668). 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 (2018: £2,700,000) were paid by the syndicate to Tokio Marine Kiln Syndicates Limited. In addition to this, expenses of £12,181,472 (2018: £12,367,798) 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.

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 £3.1m (2018: £2.6m) 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 £0.6m (2018: £0.6m). A decrease of 1% would result in £3.1m (2018: £2.6m) less premium being reported and an estimated £0.6m (2018: £0.6m) 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 2019 is 71% (2018: 60%). 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 £2.6m (2018: £2.2m) and the result reducing by £2.6m (2018: £2.2m).

(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 Standard & Poor's credit rating 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.

	AAA £'000s	AA £'000s	A £'000s	<A £'000s	NR £'000s	Total £'000s
2019						
Financial investments:						
Other financial investments	49,929	62,005	57,051	6,202	15,352	190,539
Overseas deposits	2,747	1,613	1,093	13,470	72	18,995
Cash at bank and in hand	-	-	691	-	-	691
Reinsurers' share of outstanding claims including reinsurers' IBNR	173	-	39,160	615	-	39,948
Reinsurance recoverable on paid claims neither due nor impaired	-	347	4,837	-	292	5,476
	52,849	63,965	102,832	20,287	15,716	255,649

	AAA £'000s	AA £'000s	A £'000s	<A £'000s	NR £'000s	Total £'000s
2018						
Financial investments:						
Other financial investments	34,107	68,516	37,306	7,188	6,367	153,484
Overseas deposits	2,451	1,877	974	15,558	8	20,868
Cash at bank and in hand	-	-	1,967	-	-	1,967
Reinsurers' share of outstanding claims including reinsurers' IBNR	-	7,113	45,388	-	3,368	55,869
Reinsurance recoverable on paid claims neither due nor impaired	-	21	5,578	-	556	6,155
	36,558	77,527	91,213	22,746	10,299	238,343

In respect of the reinsurers' share of claims, there are collateralised reinsurers including ILS arrangements, which comprise trust accounts totalling \$24.6m (2018: \$26.7m).

The largest potential reinsurer credit exposure to the syndicate at 31 December 2019 was 6.0% with Tokio Marine & Nichido Fire Insurance Co., Ltd., which is an AAA rated security (2018: 41.68% with Tokio Marine & Nichido Fire Insurance Co., Ltd., AAA rated security). The Outwards Reinsurance team 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.

	Fully performing £'000s	Past due £'000s	Impairment £'000s	Total £'000s
2019				
Financial investments:				
Other financial investments	190,539	-	-	190,539
Overseas deposits	18,995	-	-	18,995
Cash at bank and in hand	691	-	-	691
Reinsurers' share of outstanding claims including reinsurers' IBNR	39,948	-	-	39,948
Insurance debtors	76,602	7,383	-	83,985
Reinsurance recoverable on paid claims	5,476	1,881	-	7,357
Other debtors	292,278	-	-	292,278
	624,529	9,264	-	633,793

2018	Fully performing £'000s	Past due £'000s	Impairment £'000s	Total £'000s
Financial investments:				
Other financial investments	153,484	-	-	153,484
Overseas deposits	20,868	-	-	20,868
Cash at bank and in hand	1,967	-	-	1,967
Reinsurers' share of outstanding claims including reinsurers' IBNR	55,869	-	-	55,869
Insurance debtors	64,399	17,629	-	82,028
Reinsurance recoverable on paid claims	6,155	386	-	6,541
Other debtors	244,272	-	-	244,272
	547,014	18,015	-	565,029

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 2019 the balance held in these trust funds was US\$111.3m (2018: US\$118.0m) and Canadian \$24.7m (2018: Canadian \$30.6m).

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.

2019	Up to 1 year £'000s	1-3 years £'000s	3-5 years £'000s	Over 5 years £'000s	Total £'000s
Financial liabilities:					
Forward currency contracts	1	-	-	-	1
Creditors	137,157	2,335	-	-	139,492
	137,158	2,335	-	-	139,493
Claims outstanding	130,850	131,821	49,551	38,237	350,459
Financial liabilities and claims outstanding	268,008	134,156	49,551	38,237	489,952

	Up to 1 year	1-3 years	3-5 years	Over 5 years	Total
2018	£'000s	£'000s	£'000s	£'000s	£'000s
Financial liabilities:					
Forward currency contracts	-	-	-	-	-
Creditors	111,468	5,840	-	-	117,308
	111,468	5,840	-	-	117,308
Claims outstanding	134,619	103,399	38,097	33,039	309,154
Financial liabilities and claims outstanding	246,087	109,239	38,097	33,039	426,462

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 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 majority of 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 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.

The following table gives an indication of the impact on the result and net assets or liabilities 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.

	2019	2018
	£'000s	£'000s
Sterling strengthens 10% against US dollar	(4,565)	(4,516)
Sterling strengthens 10% against Canadian dollar	270	(188)
Sterling weakens 10% against US dollar	4,565	4,516
Sterling weakens 10% against Canadian dollar	(270)	188

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.

Capital management

Disclosures on capital management can be found on pages 5 to 6.

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 and net assets or liabilities of a 50 basis point movement in interest rates on the market value of the syndicate's investments.

	2019	2018
	£'000s	£'000s
Impact of 50 basis point increase on result	(1,472)	(1,164)
Impact of 50 basis point decrease on result	1,472	1,181
Impact of 50 basis point increase on net assets	(1,472)	(1,164)
Impact of 50 basis point decrease on net assets	1,472	1,181

(c) Fair value estimation

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

- Level 1 financial 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 as well as a mandatory loan with Lloyd's in relation to funding Lloyd's Brussels.

	£'000s			
2019	Level 1	Level 2	Level 3	Total
Derivative financial instruments:				
Forward currency derivatives – assets	24	-	-	24
Forward currency derivatives – liabilities	(1)	-	-	(1)
Shares and other variable yield securities	-	44,852	1,044	45,896
Debt securities and other fixed income securities	29,367	115,037	215	144,619
Overseas deposits	16,039	2,956	-	18,995
	45,429	162,845	1,259	209,533

	£'000s			
2018	Level 1	Level 2	Level 3	Total
Derivative financial instruments:				
Forward currency derivatives – assets	27	-	-	27
Forward currency derivatives – liabilities	-	-	-	-
Shares and other variable yield securities	-	20,270	-	20,270
Debt securities and other fixed income securities	36,534	96,452	201	133,187
Overseas deposits	18,155	2,713	-	20,868
	54,716	119,435	201	174,352

At 31 December 2019 the syndicate held forward currency contracts for which the fair value is a net asset of £22,481 (2018: £26,814) with the gain going through investment income in the statement of comprehensive income.

	2019	2018
Level 3 financial instruments	£'000s	£'000s
Opening Balance	201	449
Sales during the year	(148)	(449)
Purchases during the year	1,161	205
Gains/(losses) recognised in the statement of comprehensive income	45	(4)
Closing Balance	1,259	201