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MS Amlin Underwriting Limited
Syndicate 2001

Annual Report &
Financial Statements

31 December 2019

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Directors and administration

Managing agent

MS Amlin Underwriting Limited

Directors

G A M Bonvarlet – Chairman, Independent non-executive

P J Calnan – Independent non-executive

T C Clementi – Chief Executive Officer

M R Clements

J A Collinson

P J Green – Chief Financial Officer

J G Holland

Y Koike – Non-executive

H Morimoto – Non-executive

M J Taffs

D Thornton – Independent non-executive

A Verga

P J Wooldridge

Active Underwriters

M R Clements

M J Taffs

P J Wooldridge

Company Secretary

F Moule

Managing agent's registered office

The Leadenhall Building

122 Leadenhall Street

London EC3V 4AG

Managing agent's registered number

02323018

Independent syndicate auditor

KPMG LLP

15 Canada Square

London

E14 5GL

Corporate solicitors

Linklater's LLP

1 Silk Street

London EC2Y 8HQ

Investment managers (Sub funds under management)

BlueBay Asset Management LLP

Goldman Sachs Asset Management International

PIMCO Global Advisers (Ireland) Ltd

Wellington Management International Ltd

H2O Asset Management LLP

Umbrella structure

Toro Prism Trust

Bankers

Citibank

Lloyds TSB Bank plc

Royal Bank of Canada

U.S. Bank

BNP Paribas

National Australia Bank

Seven year financial summary

	2019	2018	2017	2016	2015	2014	2013
	£m	£m	£m	£m	£m	£m	£m
Syndicate allocated capacity	1,850.0	1,850.0	1,850.0	1,400.0	1,400.0	1,400.0	1,400.0
Gross premium written	2,084.5	2,372.2	2,082.2	1,830.7	1,653.9	1,537.9	1,471.7
Net premium written	1,548.7	1,699.9	1,533.9	1,357.6	1,217.6	1,135.0	1,043.7
Net earned premium	1,724.6	1,621.9	1,395.5	1,294.90	1,107.8	1,101.9	1,007.8
Net claims	(1,101.1)	(1,119.7)	(1,330.8)	(813.5)	(538.4)	(605.2)	(516.8)
Expenses	(675.2)	(679.5)	(641.1)	(571.1)	(479.4)	(425.2)	(407.2)
Foreign Exchange gains	6.8	37.7	6.1	16.3	11.5	9.5	(4.3)
Investment return	114.1	25.6	70.6	38.3	32.8	38.9	50.0
Profit/(loss) for the financial year	69.2	(114.0)	(499.7)	(35.1)	134.3	119.8	129.5
Claims ratio	63.8%	69.0%	95.4%	62.8%	48.6%	54.9%	51.3%
Expense ratio	39.2%	41.9%	45.9%	44.1%	43.3%	38.6%	40.4%
Combined ratio	103.0%	110.9%	141.3%	106.9%	91.9%	93.5%	91.7%

Report of the directors of the managing agent

The directors of MS Amlin Underwriting Limited (the managing agent) present their managing agent's report for Syndicate 2001 (the Syndicate) for the year ended 31 December 2019.

The annual report 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) and in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 102: the Financial Reporting standard applicable in the United Kingdom and Republic of Ireland FRS 102 and Financial Reporting Standard 103: Insurance Contracts (FRS 103).

The Syndicate is, through MS Amlin Corporate Member Limited, a wholly aligned Syndicate of Mitsui Sumitomo Insurance Company, Limited. The ultimate parent company is MS&AD Insurance Group Holdings, Inc.

1. Strategic Report

Business review and principal activities

The principal activity of Syndicate 2001 remains the transaction of general insurance and reinsurance business in the United Kingdom. During 2019, the managing agent, along with the corporate member and the shareholder, undertook a strategic review of the business underwritten by the Syndicate. As a result of this strategic and other business reviews, the decisions were made to cease underwriting aviation insurance, domestic UK property and casualty, pro rata and international casualty lines of business. These classes have largely ceased to be written on and before 31 January 2020 except to fulfil customer conduct requirements. Classes are set out in more detail in the SBU analysis below.

The total premium income capacity, net of brokerage, of the Syndicate for each of the years of account open during 2019 was as follows:

	£m
2017 year of account	1,850.0
2018 year of account	1,850.0
2019 year of account	1,850.0

The total premium income capacity of the Syndicate in 2020 is £1,600 million.

The result for calendar year 2019 is a profit of £69.2 million (2018: £114.0 million loss).

Underwriting performance

	2019 £m	2018 £m
Gross written premiums	2,084.5	2,372.2
Net written premiums	1,548.7	1,699.9
Net earned premiums	1,724.6	1,621.9
Claims ratio	64%	69%
Expense ratio (excluding personal expenses)	37%	39%
Combined ratio	101%	108%

The underwriting result is a loss of £51.7 million (balance on the technical account less allocated investment return) (2018: £177.3 million loss) with the overall combined ratio improving to 101% (2018: 108%).

Gross written premiums decreased to £2,084.5 million (2018: £2,372.2 million), a decrease of 12.1% primarily driven by strategic remediation across SBUs. Net earned premiums increased by £102.7 million to £1,724.6 million (2018: £1,621.9 million).

The Syndicate's claims ratio improved to 64% (2018: 69%), primarily reflecting a reduced volume of catastrophe losses experienced during the year.

The expense ratio has improved by 2% to 37% (2018: 39%) driven by a heightened management focus on expenses overall. In calculating the expense and combined ratios, personal expenses payable to the managing agency of £30.8 million (2018: £16.6 million) have been excluded.

The non-technical account includes a foreign exchange gain of £6.8 million in 2019 (2018: £37.7 million gain) arising from the translation of foreign currency net positions at closing rates of exchange.

An adverse development cover (ADC) reinsurance contract was purchased in December 2018. This provides whole account protection against future deterioration of the actuarial best estimate of claims as at 31 December 2018 in respect of the 2018 and prior years' earned business, above an excess and with certain liabilities excluded, up to the limit of the reinsurer's liability. As a management margin was held in excess of the actuarial best estimate, reinsurance recoveries were recognised in 2018 for the element of this margin that would be recoverable under the contract. The premium paid for the contract was expensed in 2018 in relation to the level of cover exhausted. In 2019, there has been favourable development in the claims estimates that are covered by the contract. The benefit of this reduction (£64.8m) in the best estimate reserves was offset by a reduction in the reinsurance recoverable under the ADC contract (£34.7m).

Strategic Business Units (SBU) Performance

During 2019 the Syndicate operations were managed across three Strategic Business Units; Reinsurance, Property and Casualty, and Marine and Aviation. From 1 January 2020, following the MSI Group restructuring (see later in this report) the underwriting business is split between Reinsurance and Specialty divisions and is managed directly by the joint active underwriters. This section analyses the underwriting performance by SBU.

It should be noted that included within the Syndicate result are certain group related activities which are not relevant to the performance of the SBUs and are therefore excluded from the following analysis.

	2019 £m	2018 £m
Reinsurance		
Gross written premiums	655.8	736.9
Net written premiums	424.1	415.3
Net earned premiums	460.7	372.8
Claims ratio	49%	84%
Expense ratio (excluding personal expenses)	34%	36%
Combined ratio	83%	120%

Reinsurance generated £655.8 million of gross written premium, a decrease of £81.1 million on the prior year, predominantly due to reduced renewals as a consequence of below expectation pricing of US catastrophe business (post market losses) and strategic portfolio transfers within the MSI Group.

The claims ratio improved to 49% (2018: 84%) due to reduced catastrophe activity in 2019, and prior year reserve releases.

	2019 £m	2018 £m
Marine and Aviation		
Gross written premiums	360.1	436.0
Net written premiums	277.3	338.4
Net earned premiums	322.2	354.0
Claims ratio	64%	47%
Expense ratio (excluding personal expenses)	43%	39%
Combined ratio	107%	87%

Marine and Aviation generated £360.1 million of gross written premium, a decrease of £75.9 million on the prior year, as a consequence of the Syndicate's reunderwriting exercise and portfolio transfers within the MSI Group.

The claims ratio deteriorated to 64% (2018:47%), materially impacted by current accident year large losses (notably Ethiopian Airlines/Boeing) and attritional deterioration within the prior accident year (within War, Cargo, Liability and Hull classes).

	2019 £m	2018 £m
Property and Casualty		
Gross written premiums	1,068.6	1,199.2
Net written premiums	847.4	946.1
Net earned premiums	941.7	895.1
Claims ratio	71%	71%
Expense ratio (excluding personal expenses)	40%	40%
Combined ratio	111%	111%

Property and Casualty generated £1,068.7 million of gross written premium, a decrease of £130.5 million on the prior year. This reflects reductions in the domestic UK P&C business accepted following remediation action taken by management. In addition amounts in 2018 were inflated by adjustments to premium estimates for the prior year of account.

The claims ratio of 71% (2018: 71%) includes the offsetting impact of reduced catastrophe losses and unfavourable development on international casualty reserves within P&C International. The domestic UK P&C business ratio increased as a consequence of material fire and property losses in 2019.

Investment performance

The Syndicate produced an investment return of £114.1 million in the year (2018: £25.6 million). Syndicate underwriting assets, predominantly bonds and overseas deposits, generated £46.2 million at a return of 2.5% (2018: £25.8 million and return of 1.5%). Corporate member capital generated a gain of £67.9 million at a return of 11.5% (2018: £(0.2) million and return of (0.02)%).

Global manufacturing data weakened throughout the year whilst services output, the labour market and consumer spending data were all robust in developed market economies. The predominant factor driving the softness in the industrial sector was the political situation. Whilst conditions improved towards the end of 2019, it was a volatile year on this front. The US China trade war tensions increased as a number of tariffs were placed on the exports of each economy. The UK was also a source of anxiety due to fractious Brexit negotiations.

These political headwinds, and the impact this had on global growth, led to an easing of financial conditions across many economies. Of particular note, the US cut interest rates by 75bps and also halted its balance sheet roll-off (quantitative tightening). This supportive policy backdrop helped risk assets recover from the depressed levels experienced at the back-end of 2018.

The 2019 investment return was significantly ahead of start of year expectations. All allocations contributed positively throughout the year with equities the main driver followed by the bonds portfolio, which benefited from falling US interest rates, tighter credit spreads and active FX positioning. Property was also a solid source of investment profits. Portfolio risk was reduced during the year, mainly via the reduction in equity exposure, in an effort to conserve some of the gains made.

At 31 December 2019, investments amounted to £2,311.5 million (2018: £2,504.7 million). Directly held bonds accounted for 47.2% of the portfolio (2018: 38.5%) with the residual of the portfolio held mostly in collective investment schemes and equities. The bond portfolio remains of a high quality with 38.0% of the portfolio government and government agency backed.

The principal risks and uncertainties of the business are addressed within the notes to the financial statements on pages 16 to 44.

Future developments

Syndicate 2001's underwriting capacity for 2020 is £1,600 million (2019: £1,850 million). The Syndicate will continue to transact predominantly the current classes of general insurance and reinsurance business with the changes outlined on page 5.

Brexit

The UK left the EU on 31 January 2020 and there is currently a 'transition' period until the end of 2020 while the UK and EU negotiate additional arrangements.

As there is still uncertainty as to the final terms of the UK's new relationship with the EU, MS Amlin has implemented a business approach assuming a so called 'Hard Brexit', which could still occur at the end of the political negotiation period, 31 December 2020.

This means MS Amlin continues to support our clients throughout the UK and Europe to the same high standard while assuming the UK will cease to have passporting rights required to solicit intermediate and write European Economic Area (EEA) business. Having aligned our European business to the new Lloyd's Brussels subsidiary since 1 January 2019, we believe we have established the most effective foundation, to continue to support our clients throughout the UK and Europe with the same products and high level of service as we do today.

MS Amlin is also participating in the Lloyd's mandated Market wide Part VII transfer of historical, open EEA policies and claims, to Lloyd's Brussels, which is scheduled for later in 2020. This further enhances our ability to service EEA clients and settle EEA claims following transition.

Covid 19 (coronavirus)

The managing agency is considering the potential impact of the Covid 19 outbreak on the Syndicate's insurance, reinsurance and investment portfolios as well as its operational resilience.

MSI Group Restructuring

On 19 November 2019, Mitsui Sumitomo Insurance Company, Limited (MSI) announced a reorganisation of its international business. This involved the removal of the regional, intermediate holding companies within MSI, including MS Amlin plc, from 1 January 2020. Under the new structure, MS Amlin Plc was removed as a holding company and the corporate entities, including the managing agent and MS Amlin Corporate Member Limited, are owned directly by MSI and supported by a shared business service enterprise.

The new operating model simplifies and enhances strategic and operational oversight. It is also designed to support the implementation of MS Amlin's new underwriting strategy, announced in September 2019, that involves redeploying its capital and management focus to its core markets, including reinsurance and specialty.

Consequently, on 18 December 2019, the managing agent and MS Amlin Corporate Member Limited became direct subsidiaries of MS Amlin Limited (formerly MS Amlin plc).

On 1 January 2020, MS Amlin Limited (formerly MS Amlin plc) distributed its shareholdings in the managing agent and MS Amlin Corporate Member Limited to MSI.

2. Disclosure of information to auditor

Each director who held office at the date of the approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the Syndicate's auditor is unaware, and
- the director has taken all the steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the Syndicate's auditor is aware of that information.

The current directors of the managing agent are shown on page 3. Since 1 January 2019, the following changes to the Board of Directors have occurred:

Name	Date of resignation
M B Rodden	31 March 2019
S C W Beale	31 December 2019

Name	Date of appointment
Y Koike	12 December 2019
H Morimoto	12 December 2019
A Verga	13 December 2019

The Syndicate has financial resources to meet its financial needs and manages a mature portfolio of insurance risk through an experienced and stable team. The directors believe that the Syndicate is well positioned to manage its business risks successfully in the current economic environment.

The 2020 year of account of Syndicate 2001 has opened and the directors have concluded, after making appropriate enquiries, that the Syndicate has sufficient resources to, and a reasonable expectation that it will, open a 2021 year of account. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

Independent auditor

Pursuant to Section 14 (2) of Schedule 1 of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

External Audit

The FRC's Audit Quality Review team (AQR team) selected KPMG's 2018 audit of the syndicate accounts as part of their 2019/20 annual inspection of audit firms. The directors were pleased to note that there were no findings raised in the FRC's assessment of the audit.

3. Statement of managing agent's responsibilities on behalf of the Board

The directors of the managing agent are responsible for preparing the Syndicate financial statements in accordance with applicable law and regulations.

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 requires the directors of the managing agent to prepare their Syndicates financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

Under the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 the directors of the managing agent must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Syndicate and of the profit or loss of the Syndicate for that period. In preparing these financial statements, the directors of the managing agent are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Assess the Syndicate's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- Use the going concern basis of accounting unless they either intend to cease trading, or have no realistic alternative but to do so.

The directors of the managing agent are responsible for keeping adequate accounting records that are sufficient to show and explain the Syndicate's transactions and disclose with reasonable accuracy at any time the financial position of the Syndicate and enable them to ensure that the financial statements comply with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Syndicate and to prevent and detect fraud and other irregularities.

The directors of the managing agent are responsible for the maintenance and integrity of the Syndicate and financial information included on the Syndicate's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

On behalf of the Board



T C Clementi
Chief Executive Officer
4th March 2020

Independent auditor's report to the member of Syndicate 2001

Opinion

We have audited the Syndicate annual accounts of Syndicate 2001 for the year ended 31 December 2019 which comprise the Statement of Profit or Loss, Statement of Financial Position, Statement of Changes in Member's Balances, Statement of Cash Flows, and related notes, including the accounting policies in note 3.

In our opinion 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 profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the syndicate in accordance with, UK ethical requirements including the Financial Reporting Council ("FRC") Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Other Matter – Brexit Uncertainty

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the Syndicate accounts. All audits assess and challenge the reasonableness of estimates made by the directors, such as valuation of unlisted investments and related disclosures and the appropriateness of the going concern basis of preparation of the Syndicate Accounts. All of these depend on assessments of the future economic environment and the Syndicate's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and its effects are subject to unprecedented levels of uncertainty of consequences, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the Syndicate's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a syndicate and this is particularly the case in relation to Brexit.

Going concern

The directors of the Managing Agent have prepared the Syndicate annual accounts on the going concern basis as they do not intend to cease underwriting or to cease its operations, and as they have concluded that the syndicate's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the Syndicate annual accounts ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the Syndicate annual accounts. In our evaluation of the directors' conclusions, we considered the inherent risks to the syndicate's business model, including the impact of Brexit, and analysed how those risks might affect the syndicate's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the syndicate will continue in operation.

Report of the directors of the Managing Agent

The directors are responsible for the Report of the directors of the Managing Agent. Our opinion on the Syndicate annual accounts does not cover that report and we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the Report of the directors of the Managing Agent and, in doing so, consider whether, based on our Syndicate annual accounts audit work, the information therein is materially misstated or inconsistent with the Syndicate annual accounts or our audit knowledge. Based solely on that work we have not identified material misstatements in that report.

In our opinion the information given in the Report of the Directors of the Managing Agent is consistent with the Syndicate annual accounts.

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the Syndicate annual accounts are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

Responsibilities of the directors of the Managing Agent

As explained more fully in their statement set out on page 9, the directors of the Managing Agent are responsible for: the preparation of the Syndicate annual accounts and for being satisfied that they give a true and fair view; 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; 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 they either intend to cease trading, or have no realistic alternative but to do so.


Auditor's responsibilities

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Syndicate annual accounts.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the syndicate's member, as a body, in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. Our audit work has been undertaken so that we might state to the syndicate's member those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the Syndicate's member, as a body, for our audit work, for this report, or for the opinions we have formed.



Timothy Butchart (Senior Statutory Auditor)
For and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square,
London, E14 5GL
4th March 2020

Statement of profit or loss for the year ended 31 December 2019

	Note	2019 £m	2018 £m
Technical account – general business			
Earned premiums, net of reinsurance			
Gross written premiums	4	2,084.5	2,372.2
Outward reinsurance premiums		(535.8)	(672.3)
Net written premiums		1,548.7	1,699.9
Change in the provision for unearned premiums			
Gross amount	11(c)	186.5	(57.1)
Reinsurers' share	11(c)	(10.6)	(20.9)
Change in the net provision for unearned premiums	11(c)	175.9	(78.0)
Earned premiums, net of reinsurance		1,724.6	1,621.9
Allocated investment return transferred from the non-technical account		46.2	25.8
Claims incurred, net of reinsurance			
Claims paid			
Gross amount	11(a)	(1,424.8)	(1,421.7)
Reinsurers' share	11(a)	476.7	494.6
Net claims paid	11(a)	(948.1)	(927.1)
Change in the provision for claims			
Gross amount	11(a)	11.0	(479.4)
Reinsurers' share	11(a)	(164.0)	286.8
Change in the net provision for claims	11(a)	(153.0)	(192.6)
Claims incurred, net of reinsurance	11(a)	(1,101.1)	(1,119.7)
Net operating expenses	5	(675.2)	(679.5)
Balance on the technical account for general business		(5.5)	(151.5)

	Note	2019 £m	2018 £m
Non-technical account – general business			
Balance on the general business technical account		(5.5)	(151.5)
Investment income	8	44.3	41.0
Realised (losses)/gains on investments	8	(0.8)	4.0
Unrealised gains/(losses) on investments	8	71.1	(19.2)
Investment expenses and charges	8	(0.5)	(0.2)
Allocated investment return transferred to general business technical account		(46.2)	(25.8)
Foreign exchange gains		6.8	37.7
Profit/(loss) for the financial year		69.2	(114.0)

All operations of the Syndicate relate to continuing operations.

There were no amounts recognised in other comprehensive income in the current or preceding year other than those included in the Statement of profit or loss. Therefore no Statement of other comprehensive income has been presented.

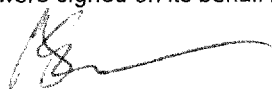
The accompanying notes on pages 16 to 44 form part of these accounts.

Statement of financial position at 31 December 2019

	Note	2019 £m	2018 £m
Investments			
Financial investments	10(b)	2,311.5	2,504.7
Reinsurers' share of technical provisions			
Provision for unearned premiums	11(c)	190.8	216.3
Claims outstanding	11(a)	1,007.1	1,200.6
		1,197.9	1,416.9
Debtors			
Debtors arising out of direct insurance operations		624.3	708.4
Debtors arising out of reinsurance operations		733.1	819.8
Other debtors	10(c)	197.2	192.6
		1,554.6	1,720.8
Other assets			
Cash at bank and in hand	10(a)	102.3	1.4
Overseas deposits	12	148.5	188.5
		250.8	189.9
Prepayments and accrued income			
Deferred acquisition costs	11(d)	274.5	332.6
Other prepayments and accrued income		29.2	54.6
		303.7	387.2
Total assets		5,618.5	6,219.5
Capital and reserves			
Member's balance		590.6	860.8
Technical provisions			
Provision for unearned premiums	11(c)	1,139.5	1,369.2
Claims outstanding	11(a)	3,345.9	3,458.9
		4,485.4	4,828.1
Creditors			
Creditors arising out of direct insurance operations		217.3	278.1
Creditors arising out of reinsurance operations		287.4	213.5
Other creditors	10(d)	37.8	39.0
		542.5	530.6
Total liabilities		5,618.5	6,219.5

The accompanying notes on pages 16 to 44 form part of these accounts.

The financial statements on pages 12 to 44 were approved by the Board of Directors of MS Amlin Underwriting Limited and were signed on its behalf by



P J Green
Chief Financial Officer
4th March 2020

Statement of cash flows for the year ended 31 December 2019

	Note	2019 £m	2018 £m
Cash flows from operating activities			
Profit /(loss) for the financial year		69.2	(114.0)
(Decrease)/increase in gross technical provisions		(204.8)	567.5
Decrease/(increase) in reinsurers' share technical provisions		176.1	(184.1)
Decrease(increase) in debtors		121.3	(198.6)
Increase/(decrease) in creditors		29.8	(82.0)
Increase/(decrease) in other assets/liabilities		101.9	(30.3)
Investment return		(114.1)	(25.6)
Foreign exchange (gains)		(83.5)	(70.1)
Net cash inflow/(outflow) from operating activities		96.0	(137.2)
Cash flows from investing activities			
Purchase of equity, debt instruments and derivatives		(8,147.9)	(9,693.2)
Sale of equity, debt instruments and derivatives		8,464.5	9,441.7
Investment income received		38.1	9.9
Net cash inflow/(outflow) from investing activities		354.7	(241.6)
Cash flows from financing activities			
Distribution of (profit)/loss		(59.3)	52.0
Cash call		200.0	-
Funds In Syndicate (releases)/additions		(490.5)	322.0
Net cash (outflow)/inflow from financing activities		(349.8)	374.0
Net increase/(decrease) in cash and cash equivalents		100.9	(4.8)
Cash and cash equivalents at the beginning of the year		1.4	6.0
Effect of exchange rate on cash and cash equivalents		0.0	0.2
Cash and cash equivalents at the end of the year	10(a)	102.3	1.4

The accompanying notes on pages 16 to 44 form part of these accounts.

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

	2019 £m	2018 £m
Member's balance brought forward at 1 January	860.8	600.8
Profit/(loss) for the financial year	69.2	(114.0)
Funding (returned to)/received from member	(339.4)	374.0
Member's balance carried forward at 31 December	590.6	860.8

Members participate on Syndicates by reference to years of account. Assets and liabilities are assessed with reference to policies incepting in that year of account in respect of their membership of a particular year. MS Amlin Corporate Member Limited is a wholly owned subsidiary of Mitsui Sumitomo Insurance Company, Limited.

The accompanying notes on pages 16 to 44 form part of these accounts.

Notes to the financial statements for the year ended 31 December 2019

1. Basis of preparation

These financial statements have been prepared on a going concern basis, under the historical cost convention except for certain financial assets which are measured at their fair value. The Directors consider the going concern basis appropriate because the Syndicate has opened a 2020 year of account and, after making appropriate enquiries, they expect to be in a position to open a 2021 year of account. The financial statements have been prepared using the annual basis of accounting in accordance with Regulation 5 the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts Regulations 2008) applicable Accounting Standards in the United Kingdom and the Republic of Ireland, including Financial Reporting standard 102 (FRS 102). FRS 102 requires the application of Financial Reporting Standard 103 (FRS 103) in relation to insurance contracts. These requirements have been consistently applied to all years presented.

The financial statements are presented in pound sterling (GBP), which is the Syndicate's functional currency.

2. Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements in conformity with FRS 102 and FRS 103 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Syndicate's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed below. The preparation of financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates.

Insurance claims outstanding

The most significant estimate made in the financial statements relates to unpaid insurance claim reserves and related loss adjustment expenses of the Syndicate. The methods, assumptions and estimates used by the Syndicate to estimate the insurance contract liabilities are described in note 11(i).

Unpaid claims reserves are estimated on an undiscounted basis. Provisions are subject to a detailed quarterly review where forecast future cash flows and existing amounts provided are reviewed and reassessed. Any changes to the amounts held are adjusted through the statement of profit or loss.

Details of the Syndicate's outstanding claims reserves and claims development are given in note 11.

Insurance contract premium

The significant accounting policy note insurance contracts premiums details how the Syndicate accounts for insurance premiums including the estimates made by the Syndicate. In addition to this further information is included below to aid in the understanding of the potential significance of the impact of these estimations to the Syndicate.

With over supply of capital, particularly in the reinsurance market, clients have increasingly requested multi-year placements of their reinsurance programme. A number of contracts include cancellation clauses which can be enforced by the client. Judgement is therefore required to be applied in calculating the estimated total premium at the inception of these contracts.

The calculation of EPI is inherently subjective and attained through a combination of underwriters' best estimates at a policy level and actuarial techniques at a portfolio level, based on observable historical trends. The estimated premium income in respect of facility contracts, for example binding authorities, is deemed to be written in full at the inception of the contract and estimates are made to allow for business incepted but not yet reported. These estimates are reviewed on a quarterly basis by underwriters and independently assessed by the actuarial and finance teams. Subsequent adjustments, based on reports of actual premium by the insureds, ceding companies, intermediaries or coverholders, or revisions in estimates, are recorded in the period in which they are determined.

The estimation of earned premium uses judgement about the profile of risk over the coverage period of (re)insurance contracts. For premium written under facilities, the earned element is calculated based on the estimated inception date and coverage period of the underlying contracts. Some classes of business may be exposed to a seasonal pattern to the incidence of claims. Where this is the case, the earnings profile of the related premium is aligned.

Financial assets and financial liabilities

The Syndicate uses pricing vendor sources in determining the fair value of financial assets and financial liabilities. Depending on the methods and assumptions used (for example, in the fair valuation of Level 2 and Level 3 financial assets), the fair valuation of financial assets and financial liabilities can be subject to estimation uncertainty. Details of these methods and assumptions are described in note 10.

Notes to the financial statements for the year ended 31 December 2019

3. Significant accounting policies

The principal accounting policies are summarised below. They have been applied consistently throughout the current and prior years.

Insurance contract premiums

Gross written premium comprise premium on insurance contracts incepting during the financial year together with adjustments to premium written in previous accounting years.

Premium is disclosed before the deduction of brokerage and taxes or duties levied on them. The proportion of gross written premium, gross of commission payable, attributable to periods after the reporting date is deferred as a provision for unearned premium. The change in this provision is taken to the statement of profit or loss in order that revenue is recognised over the period of the risk.

Premium is recognised as earned over the policy contract period. The earned element is calculated separately for each contract on a basis where the premium is apportioned over the period of risk.

Acquisition costs

Acquisition costs comprise brokerage incurred on insurance contracts written during the financial year. They are incurred on the same basis as the earned proportions of the premiums they relate to. Deferred acquisition costs are amortised over the period in which the related revenues are earned. Deferred acquisition costs are reviewed at the end of each reporting year and are impaired where they are no longer considered to be recoverable out of future margins in the related revenues.

Under FRS 103, deferred acquisition costs are monetary assets. These are therefore valued at closing exchange rates at the reporting period end and any foreign currency gains or losses are recognised in the statement of profit or loss.

Reinsurance premiums ceded

Reinsurance premiums ceded comprise premiums on reinsurance arrangements bought which incept during the financial year, together with adjustments to premium ceded in previous accounting years. The proportion of reinsurance premium ceded attributable to periods after the reporting date is deferred as reinsurers' share of unearned premium. Reinsurance premium ceded is earned over the policy contract period in accordance with the terms of the reinsurance contract.

Insurance contract liabilities

Claims paid are defined as those claims transactions settled up to the reporting date including internal and external claims settlement expenses allocated to those transactions.

Unpaid claims reserves are made for known or anticipated liabilities under insurance contracts which have not been settled up to the reporting date. Included within the provision is an allowance for the future costs of settling those claims. This is estimated based on past experience and current expectations of future cost levels. Management also include a margin above the estimate for the known and anticipated liabilities.

The unpaid claims reserves also include, where necessary, a reserve for unexpired risks where, at the reporting date, the estimated costs of future claims and related deferred acquisition costs are expected to exceed the unearned premium provision.

Some insurance contracts permit the Syndicate to sell (usually damaged) property acquired in settling a claim (for example, salvage). The Syndicate may also have the right to pursue third parties for payment of some or all costs (for example, subrogation). Estimates of salvage recoveries and subrogation reimbursements are included as allowances in the measurement of the insurance liability for unpaid claims, and recognised in insurance and reinsurance receivables when the liability is settled.

Notes to the financial statements for the year ended 31 December 2019

3. Significant accounting policies (Continued)

Reinsurance recoveries

The benefits to which the Syndicate is entitled under its reinsurance contracts held are recognised as reinsurance assets.

These assets consist of short-term balances due from reinsurers, as well as longer-term receivables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract.

Where there is objective evidence that a reinsurance asset is impaired, the Syndicate reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in the statement of profit or loss.

Financial assets

The Syndicate's financial assets are classified at fair value through profit and loss (FVPL). This classification requires all fair value changes to be recognised immediately within the investment return line in the statement of profit or loss. The Syndicate has availed itself of the option in FRS 102 to apply the recognition and measurement provisions of IAS 39 Financial Instruments: Recognition and Measurement to its financial assets and financial liabilities.

Within the FVPL category, holdings in collective investment schemes, fixed income securities, equity securities, property funds and certain derivatives are classified as 'trading' as the Syndicate buys with the intention to resell.

All other assets at FVPL are classified as 'other than trading' within the FVPL category as they are managed and their performance is evaluated on a FVPL basis.

Purchases and sales of investments are recognised on the trade date, which is the date the Syndicate commits to purchase or sell the assets. These are initially recognised at fair value, and are subsequently re-measured at fair value based on quoted bid prices. Transaction costs are recognised directly in the statement of profit or loss when incurred. Changes in the fair value of investments are included in the statement of profit or loss in the year in which they arise. The uncertainty around valuation is discussed further in note 10.

Derivative financial instruments

Derivative financial instruments primarily include currency swaps, currency and interest rate futures, currency options and other financial instruments that derive their value mainly from underlying interest rates or foreign exchange rates. Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into. They are subsequently measured at fair value, with their fair values obtained from quoted market prices or, where these are not available, by using valuation techniques such as discounted cash flow models or option pricing models. Changes in the fair value of derivative instruments are recognised immediately in the statement of profit or loss.

The Syndicate documents at the inception of each hedging transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Syndicate also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values of hedged items.

Investment return

The investment return comprises investment income, investment gains less losses, and is net of investment expenses and charges.

Realised gains or losses are calculated as the difference between the net sales proceeds and their purchase price in the financial year or their valuation at the commencement of the year. Unrealised gains and losses are calculated as the difference between the valuation of investments at the balance sheet date and their purchase price in the financial year and their valuation at the commencement of the year.

All of the investment return arising in the year is reported initially in the non-technical account. A transfer is then made from the non-technical account to the technical account to reallocate investment return relating to underwriting assets.

Tax

No provision has been made in respect of UK income tax on trading income. It is the responsibility of the member to settle their tax liabilities. Overseas taxation comprises US Federal Income tax and Canadian Federal Income tax. The amounts charged to the member are collected centrally through Lloyd's Members' Services Unit as part of the member's distribution process. The ultimate tax liability is the responsibility of the underwriting member.

Notes to the financial statements for the year ended 31 December 2019

3. Significant accounting policies (Continued)

Foreign currencies

The Syndicate maintains seven separate currency funds, namely pound sterling, US dollar, euro, Canadian dollar, New Zealand dollar, Australian dollar and Japanese yen.

(a) Functional and presentation currency

Items included in the financial statements of the Syndicate are measured in pound sterling (£) which is the functional currency of the primary economic environment in which the Syndicate operates. The financial statements are presented in pound sterling (£).

(b) Transactions and balances

Transactions denominated in foreign currencies are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities are translated at the rates of exchange at the reporting date (insurance balances are considered to be monetary assets). Non-monetary assets and liabilities are translated at the rate prevailing on the date in which the asset or liability first arose or, where such items are revalued, at the latest valuation date. Exchange differences are recognised within the 'non-technical account'.

Loans and receivables

Loans and receivables are initially recognised at fair value and subsequently measured at amortised cost using an effective interest rate. Appropriate allowances for estimated irrecoverable amounts are recognised in the statement of profit or loss when there is evidence that the asset is impaired. These are reversed when the triggering event that caused the impairment is reversed.

Other payables

Other payables are initially recognised at fair value and subsequently measured at amortised cost. They represent liabilities to pay for goods or services that have been received or supplied in the normal course of business, invoiced by the supplier before the year end, but for which payment has not yet been made.

Insurance debtors and creditors

In the normal course of business, for the majority of contracts, settlement is required to be made with Lloyd's Central Accounting, the market settlement bureau, on the basis of the net balance due to or from insurance brokers in total rather than the amounts due to or from the individual parties which they represent. The legal status of this practice of net settlement is uncertain and in the event of insolvency it is generally abandoned. Accordingly, insurance debtors and creditors, as presented, in respect of both Lloyd's Central Accounting settled business and business that is settled direct with brokers and service companies comprise respectively the totals of all the Syndicate's individual outstanding debit and credit transactions before any offset. The resultant totals give no indication of future net cash flows.

Syndicate operating expenses

Costs incurred by the managing agent exclusively for the Syndicate are charged to the Syndicate on an accruals basis.

Expenses incurred jointly by the managing agent and the Syndicate are charged to the Syndicate and reflect the costs of services provided and does not include any profit element. The managing agent charges a further management fee of 1.0% of syndicate capacity.

Retirement benefit costs

Pension contributions payable by the Syndicate are charged to the statement of profit or loss when due.

Cash and cash equivalents

Cash and cash equivalents are carried in the statement of financial position at fair value. For the purposes of the statement of cash flows, cash and cash equivalents comprise cash in hand, deposits held on call with banks and other short-term, highly liquid investments which are believed to be subject to insignificant risk of change in fair value.

Notes to the financial statements for the year ended 31 December 2019

4. Technical account analysis

An analysis of the underwriting result before investment return and net technical provisions is set out below:

2019	Gross written premiums £m	Gross earned premiums £m	Gross claims incurred £m	Net operating expenses £m	Reinsurance balance £m	Total £m	Net technical provisions £m	Commissions on gross premiums earned £m
Direct insurance								
Accident and health	44.4	51.7	(31.4)	(19.3)	(4.4)	(3.4)	79.7	(19.3)
Motor (third party liability)	23.0	24.6	(25.1)	(6.5)	(0.1)	(7.1)	41.6	(2.7)
Motor (other classes)	238.2	257.0	(160.2)	(78.0)	(14.7)	4.1	426.8	(45.2)
Marine, aviation and transport	202.1	243.0	(217.5)	(76.1)	23.3	(27.3)	360.3	(53.7)
Fire and other damage to property	382.4	388.5	(315.5)	(135.8)	1.0	(61.8)	568.3	(103.3)
Third party liability	312.6	362.1	(230.7)	(122.8)	(29.4)	(20.8)	567.3	(107.9)
Miscellaneous	61.4	56.9	(18.6)	(21.7)	(9.0)	7.6	85.0	(14.5)
	1,264.1	1,383.8	(999.0)	(460.2)	(33.3)	(108.7)	2,129.0	(346.6)
Reinsurance	820.4	887.2	(414.8)	(215.0)	(200.4)	57.0	1,158.5	(169.4)
Total	2,084.5	2,271.0	(1,413.8)	(675.2)	(233.7)	(51.7)	3,287.5	(516.0)

2018	Gross written premiums £m	Gross earned premiums £m	Gross claims incurred £m	Net operating expenses £m	Reinsurance balance £m	Total £m	Net technical provisions £m	Commissions on gross premiums earned £m
Direct insurance								
Accident and health	63.4	56.5	(55.7)	(15.2)	(0.9)	(15.3)	92.3	(9.4)
Motor (third party liability)	21.1	24.8	(16.4)	(7.2)	1.6	2.8	45.7	(10.8)
Motor (other classes)	232.7	225.1	(168.4)	(56.6)	(2.3)	(2.2)	434.9	(40.7)
Marine, aviation and transport	252.7	275.9	(177.2)	(95.4)	16.0	19.3	488.7	(64.7)
Fire and other damage to property	384.1	379.4	(286.0)	(146.9)	28.4	(25.1)	648.3	(84.2)
Third party liability	372.9	380.8	(317.7)	(121.9)	34.2	(24.6)	519.6	(66.6)
Miscellaneous	57.7	45.6	(22.8)	(21.2)	(6.9)	(5.3)	64.8	(11.9)
	1,384.6	1,388.1	(1,044.2)	(464.4)	70.1	(50.4)	2,294.3	(288.3)
Reinsurance	987.6	927.0	(856.9)	(215.1)	18.1	(126.9)	1,116.9	(187.7)
Total	2,372.2	2,315.1	(1,901.1)	(679.5)	88.2	(177.3)	3,411.2	(476.0)

All premiums are concluded in the UK.

The geographical analysis of gross written premiums by location of client, as a proxy for risk location, is as follows:

	2019 £m	2018 £m
UK	600.6	601.4
Other EU countries	180.0	181.6
USA	552.8	620.0
Other	751.1	969.2
Total	2,084.5	2,372.2

Notes to the financial statements for the year ended 31 December 2019

5. Net operating expenses

	2019 £m	2018 £m
Acquisition costs	465.1	518.8
Change in deferred acquisition costs (note 11(d))	47.7	(16.0)
Administrative expenses	140.9	154.9
Managing agent's fees	30.8	16.6
Lloyd's charges	29.2	43.0
Reinsurance commission and profit participation	(38.5)	(37.8)
	675.2	679.5
Administrative expenses include:		
Fees payable to the Syndicate's auditor for:		
– Audit of the Syndicate's annual report	(0.8)	(0.6)
– Other audit-related services	(0.2)	(0.5)

Total commissions for direct insurance business for the year amounted to £314.6 million (2018: £333.4 million).

For MS Amlin Underwriting Limited the auditor's remuneration was £15,995 (2018: £15,605).

6. Staff costs

All staff are employed by MS Amlin Corporate Services Limited. The following amounts were recharged to the Syndicate in respect of salary costs:

	2019 £m	2018 £m
Wages and salaries	54.4	57.1
Social security costs	6.9	7.1
Other pension costs	7.5	7.4
	68.8	71.6

Pension costs reflect contributions paid to the MS Amlin defined benefit scheme and defined contribution schemes. The defined benefit scheme covers a number of MS Amlin entities and is therefore expensed based on contributions paid.

Notes to the financial statements for the year ended 31 December 2019

7. Directors' emoluments

Executive directors and certain non-executive directors are also directors or employees of other companies within the MSI Group. As such a proportion of the total emoluments have been allocated to the Syndicate. However, this is not necessarily a reflection of the amount, if any, charged to the Syndicate by the company employing the director. Only amounts in respect of qualifying services are disclosed in the table below.

The directors of the managing agent received the following proportionate total emoluments during their time in office:

	2019 £'000	2018 £'000
Salaries and other short term benefits	2,877	2,209
Amounts received under cash based long-term incentive schemes	172	388
Employer's contribution to pension schemes	203	107
Termination benefits	263	-
	3,514	2,704

Payments were made to two directors (2018: two) in respect of defined benefit pension schemes and to seven directors (2018: five) in respect of defined contribution schemes. During the year, four directors were members of long term incentive schemes (2018: five).

The highest paid director received the following proportionate total emoluments during their time in office:

	2019 £'000	2018 £'000
Salaries and other short term benefits	204	402
Amounts received under cash based long-term incentive schemes	68	79
Employer's contribution to pension schemes	26	-
Termination benefits	263	-
	560	481

The highest paid director is (2018: is) a member of a long-term incentive scheme, did (2018: did not) receive payments in respect of defined benefit pension scheme and did (2018: did not) receive payment in respect of a defined contribution scheme.

The three (2018: three) active underwriters during the year received the following remuneration charged as a Syndicate expense for the period they were appointed:

	2019 £'000	2018 £'000
Salaries and other short term benefits	1,404	886
Amounts received under cash based long-term incentive schemes	104	215
Employer's contribution to pension schemes	83	23
	1,591	1,124

Notes to the financial statements for the year ended 31 December 2019

8. Investment return

	2019 £m	2018 £m
Interest income on cash and cash equivalents	4.5	3.7
Income from financial assets at fair value through profit and loss	39.8	37.3
Investment Income	44.3	41.0
Net realised (losses)/gains on financial assets measured at fair value through profit or loss	(0.8)	4.0
Net unrealised gains/(losses) on financial assets measured at fair value through profit or loss	71.1	(19.2)
Investment expenses and charges	(0.5)	(0.2)
Total investment return	114.1	25.6

The above figures include investment return of £67.9 million (2018: (£0.2) million) on cash, bonds, equity and property investments deposited by MS Amlin Corporate Member Limited into the Syndicate's Premium Trust Fund.

Calendar year investment yield	2019 £m	2018 £m
Average Syndicate funds available for investment during the year		
Pound sterling	173.7	204.6
Euro	124.5	181.1
US dollar	1,187.1	922.5
Canadian dollar	296.4	255.4
Australian dollar	38.3	92.3
New Zealand dollar	12.4	13.9
Japanese yen	54.5	26.7
Combined	1,886.9	1,696.5
Aggregate gross investment return on Syndicate investments for the year (excluding expenses and charges)	46.2	25.8
Gross calendar year investment yield:		
Pound sterling	1.3%	1.9%
Euro	1.5%	(1.5)%
US dollar	2.8%	1.9%
Canadian dollar	1.8%	1.6%
Australian dollar	5.6%	2.6%
New Zealand dollar	3.9%	1.6%
Japanese yen	1.6%	(1.1)%
Combined	2.5%	1.5%

The average amount of Syndicate funds available for investment has been calculated as the monthly average balance of investments and overseas deposits. The yield percentages exclude immaterial sources of income.

9. Foreign exchange risk

The Syndicate's functional and presentation currency is pound sterling. The Syndicate holds assets and liability balances in major base currencies of pound sterling, euro, US dollar and Canadian dollar, and additional currencies of New Zealand dollar, Japanese yen and Australian dollar. The Syndicate attempts to match the value of the assets held in these currencies with the equivalent liabilities to minimise foreign exchange exposure.

Foreign exchange exposure arises when business is written in non-functional currencies. These transactions are translated into the functional currency pound sterling at the prevailing spot rate once the premiums are received. Consequently there is exposure to currency movements between the exposure being written and the premiums being received. Payments in non-base currencies are converted back into the underlying currency at the time a claim is to be settled; therefore the Syndicate is exposed to exchange rate risk between the claim being made and its subsequent settlement.

Notes to the financial statements for the year ended 31 December 2019

9. Foreign exchange risk (Continued)

The closing rates of exchange used by the Syndicate are shown below continued

Currency	2019 Closing Rates	2018 Closing Rates
AUD	1.8876	1.8104
CAD	1.7216	1.7390
EUR	1.1818	1.1138
JPY	144.0960	139.8930
NZD	1.9686	1.9012
USD	1.3268	1.2754

The Syndicate will also occasionally transact currencies on a forward basis particularly when net monetary assets/liabilities exceed pre-agreed thresholds. All forward contracts are carried out with well-rated banks, so as to limit the counterparty risk. The investment managers also hold forward foreign exchange contracts in their portfolios at the year-end in order to hedge non-base currency investments. All forward contracts are marked to market in their valuations.

The table below presents the Syndicate's member's balance by major base currency before the effect of any hedging instruments. The amounts are stated in the pound sterling equivalent of the local currency using the exchange rates as disclosed in the table above. The financial investments are presented on a look through basis and include overseas deposits.

31 December 2019								
Currency risk	GBP £m	USD £m	EUR £m	CAD £m	AUD £m	JPY £m	Other £m	Total £m
Financial investments	823.8	1,131.6	133.2	294.0	19.9	45.2	12.3	2,460.0
Reinsurers' share of technical provisions	297.7	768.4	86.5	45.3	-	-	-	1,197.9
Insurance and reinsurance receivables	268.9	962.5	41.9	18.4	33.0	2.2	30.5	1,357.4
Cash at bank	21.3	0.8	(0.1)	0.0	79.9	0.1	0.3	102.3
Other assets	240.6	202.8	7.3	15.2	15.0	1.5	18.5	500.9
Technical provisions	(1,061.5)	(2,466.8)	(258.6)	(230.4)	(183.8)	(35.5)	(248.8)	(4,485.4)
Insurance and reinsurance payables	(139.0)	(328.5)	(26.3)	(10.9)	-	-	-	(504.7)
Other creditors	(21.8)	(11.9)	(0.1)	(3.6)	-	-	(0.4)	(37.8)
Net assets	430.0	258.9	(16.2)	128.0	(36.0)	13.5	(187.6)	590.6

31 December 2018								
Currency risk	GBP £m	USD £m	EUR £m	CAD £m	AUD £m	JPY £m	Other £m	Total £m
Financial investments	1,131.2	951.7	191.7	266.5	84.1	55.8	12.2	2,693.2
Reinsurers' share of technical provisions	332.7	926.0	121.0	37.2	-	-	-	1,416.9
Insurance and reinsurance receivables	270.2	926.0	71.8	40.8	31.6	1.1	52.8	1,528.2
Cash at bank	0.1	0.0	(0.5)	0.0	0.1	1.4	0.3	1.4
Other assets	253.1	237.4	27.7	19.0	17.9	2.0	22.6	579.8
Technical provisions	(1,175.2)	(2,679.7)	(303.1)	(218.9)	(163.9)	(61.3)	(226.0)	(4,828.1)
Insurance and reinsurance payables	(86.3)	(303.1)	(87.8)	(14.4)	-	-	-	(491.6)
Other creditors	(14.4)	(19.5)	(2.8)	(2.3)	0.0	-	-	(39.0)
Net assets	711.5	172.7	18.0	127.9	(30.2)	(1.0)	(138.1)	860.8

Notes to the financial statements for the year ended 31 December 2019

9. Foreign exchange risk (Continued)

If the foreign currencies were to strengthen/weaken by 10% against pound sterling, the movement in the monetary net assets and liabilities of the Syndicate would result in the following gains/(losses) in the statement of profit or loss at 31 December 2019:

Currency	31 December 2019		31 December 2018	
	10% strengthening of currency against GBP £m	10% weakening of currency against GBP £m	10% strengthening of currency against GBP £m	10% weakening of currency against GBP £m
US dollar	28.7	(23.5)	19.2	(15.7)
Canadian dollar	14.2	(11.6)	14.2	(11.6)
Euro	(1.8)	1.5	2.0	(1.6)
	41.1	(33.6)	35.4	(28.9)

10. Financial assets and liabilities

a) Cash and cash equivalents

	2019 £m	2018 £m
Cash and cash in hand	102.3	1.4

Cash and cash equivalents represent cash at bank and in hand, short-term bank deposits and other short-term highly liquid investments that are subject to insignificant risk of changes in fair value.

b) Net financial investments

	At Valuation		At Cost	
	2019 £m	2018 £m	2019 £m	2018 £m
Financial assets at fair value through profit or loss				
Debt securities and other fixed income securities	1,090.4	965.4	1,121.5	947.4
Shares and other variable yield securities	5.4	7.5	7.7	7.7
Participation in investment pools	195.9	166.6	192.5	166.6
Holdings in collective investment schemes	1,012.7	1,366.6	980.1	1,349.6
Other investments	7.1	1.2	7.2	1.2
Total financial assets at fair value through profit or loss	2,311.5	2,507.5	2,309.0	2,472.5
Financial liabilities at fair value through profit or loss				
Derivative financial instruments	-	(2.8)	-	-
Net financial investments	2,311.5	2,504.7	2,309.0	2,472.5
Listed investments included above:				
Debt securities and other fixed income securities	1,090.4	965.4	1,121.5	947.4
Shares and other variable yield securities	-	-	-	-

Underwriting liabilities are matched by bonds, investment pools, collective investment schemes and cash. Other more volatile assets, including equities, represent capital. Included above are funds of £593.1 million (2018: £1,017.6 million) deposited by MS Amlin Corporate Member Limited and held as capital assets (Funds in Syndicate (FIS)).

Notes to the financial statements for the year ended 31 December 2019

10. Financial assets and liabilities (Continued)

The reconciliation of opening and closing net financial investments is as follows:

	2019 £m	2018 £m
At 1 January	2,504.7	2,189.3
Foreign exchange (losses)	(47.4)	(44.1)
Net purchases	(216.1)	374.7
Net realised (losses)/gains on assets	(0.8)	4.0
Net unrealised gains/(losses) on assets	71.1	(19.2)
At 31 December	2,311.5	2,504.7

c) Other debtors

	2019 £m	2018 £m
Receivable from fellow Group companies	155.6	161.4
Other	41.6	31.2
	197.2	192.6

Other debtors are all current.

d) Other creditors

	2019 £m	2018 £m
Payable to fellow Group companies	3.0	1.9
Accruals and deferred income	19.5	22.6
Other	15.3	14.5
	37.8	39.0

Other creditors include non-current balances of £Nil (2018: £Nil).

e) Fair value hierarchy

For financial instruments carried at fair value the Syndicate has categorised the measurement basis into a fair value hierarchy as follows:

- Level 1:** Quoted prices (unadjusted) in active markets for identical assets or liabilities. An active market is one in which transactions for the assets occur with sufficient frequency and volume to provide readily and regularly available quoted prices.
- Level 2:** Inputs to a valuation model other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3:** Inputs to a valuation model for the asset or liability that are not based on observable market data (unobservable inputs) and are significant to the overall fair value measurement. Unobservable inputs may have been used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date (or market information for the inputs to any valuation models). As such, unobservable inputs reflect the assumptions it is considered that market participants would use in pricing the asset.

Shares and other variable yield securities

Listed equities traded on a primary exchange in an active market are classified as Level 1.

Notes to the financial statements for the year ended 31 December 2019

10. Financial assets and liabilities (Continued)

Debt and other fixed income securities

The fair value is based upon quotes from pricing services where available. These pricing services derive prices based on an average of quotes provided by brokers. Where multiple quotes are not available, the fair value is based upon evaluated pricing services, which typically use proprietary cash flow models and incorporate observable market inputs, such as credit spreads, benchmark quotes and other trade data. If such services do not provide coverage of the asset, then fair value is determined manually using indicative broker quotes, which are corroborated by recent market transactions in similar or identical assets. Where there is an active market for these assets and their fair value is the unadjusted quoted market price, these are classified as Level 1. This is typically the case for government bonds. Level 1 also includes bond funds, where fair value is based upon quoted prices. Where the market is inactive or the price is adjusted, but significant market observable inputs having been used by the pricing sources, then these are considered to be Level 2. This is typically the case for government agency debt, corporate debt, mortgage and asset-backed securities and catastrophe bonds. Certain assets, for which prices or other market inputs are unobservable, are classified as Level 3.

Participation in investment pools

These are units held in money market funds and the value is based upon unadjusted, quoted and executable prices provided by the fund manager and classified as Level 1.

Holdings in collective investment schemes

These represent investments in open-ended investment unit trusts. The fair value of the investment in unlisted open-ended investments is determined using an unadjusted net asset value, which results in a Level 2 valuation. The unadjusted net asset value is used as the units are redeemable at the reportable net asset value at the measurement date. Level 3 investments in collective investment schemes are valued using net asset statements provided by independent third parties.

Derivatives

Listed derivative contracts, such as futures, that are actively traded are valued using quoted prices from the relevant exchange and are classified as Level 1. Over the counter currency options are valued by the counterparty using quantitative models with multiple market inputs such as foreign exchange rate volatility. The market inputs are observable and the valuation can be validated through external sources. These are classified as Level 2.

Net financial investments by fair value grouping:

	Fair value hierarchy 2019				Fair value hierarchy 2018			
	Level 1 £m	Level 2 £m	Level 3 £m	Total 2019 £m	Level 1 £m	Level 2 £m	Level 3 £m	Total 2018 £m
Assets								
Financial assets held for trading at fair value through profit or loss	-	-	-	-	-	-	-	-
Debt and other fixed income securities	869.0	221.4	-	1,090.4	805.6	159.8	-	965.4
Shares and other variable yield securities	-	-	5.4	5.4	-	-	7.7	7.7
Other financial assets at fair value through profit or loss	-	-	-	-	-	-	-	-
Participation in investment pools	195.9	-	-	195.9	166.6	-	-	166.6
Holdings in collective investment schemes	1.9	824.5	186.3	1,012.7	8.2	1,147.6	210.8	1,366.6
Other	7.1	-	-	7.1	1.2	-	-	1.2
Total financial assets	1,073.9	1,045.9	191.7	2,311.5	981.6	1,307.4	218.5	2,507.5
Liabilities								
Financial liabilities held for trading at fair value through profit or loss	-	-	-	-	-	-	-	-
Derivative financial instruments	-	-	-	-	-	(2.8)	-	(2.8)
Total financial liabilities	-	-	-	-	-	(2.8)	-	(2.8)
Net financial investments	1,073.9	1,045.9	191.7	2,311.5	981.6	1,304.6	218.5	2,504.7

Notes to the financial statements for the year ended 31 December 2019

10. Financial assets and liabilities (Continued)

The table above excludes the Syndicate's holdings of cash and cash equivalents of £102.3 million (2018: £1.4 million). These are measured at fair value and are categorised as Level 1.

The majority of the Syndicate's investments are valued based on quoted market information or other observable market data. The Syndicate holds 8.4% (2018: 8.7%) of its net financial investments at a fair value based on estimates and recorded as Level 3 investments. Level 3 investments in collective investment schemes are valued using net asset statements provided by independent third parties, and therefore no sensitivity analysis has been prepared. Where estimates are used, these are based on a combination of independent third party evidence and internally developed models, calibrated to market observable data where possible.

There have been no transfers between the different levels during the year.

f) Financial risk management

The following section describes the Syndicate's investment risk management from a quantitative and qualitative perspective.

The Syndicate has two main categories of assets:

- Underwriting assets – premium received and held to meet future insurance claims.
- Capital assets – capital required by Lloyd's to support the underwriting business. These represent funds deposited by MS Amlin Corporate Member Limited as FIS plus working capital and surplus funds.

Investment governance

The managing agent manages the Syndicate's investments in accordance with the investment governance framework that is set by the Board of the managing agent. This framework determines investment governance and the investment risk tolerance. It is reviewed on a regular basis to ensure that the Board's fiduciary and regulatory responsibilities are being met. Oversight of investments is delegated to the Investment Governance Committee (IGC) and day-to-day management of the investments is delegated to the Investment Management team.

The IGC comprises the Non-executive Chairman, the Chief Finance Officer and Chief Risk Officer. The Chief Investment Officer and Head of Investment Management also attend. The IGC meets quarterly and supports the Board and Risk & Solvency Committee in carrying out investment related responsibilities. Investment Management is responsible for asset allocation, within guidelines approved by the IGC, and the appointment of external investment managers and custodians. The IGC is kept updated on relevant issues.

Risk tolerance

Investment risk tolerances are set by the Risk & Solvency Committee. The investment process is driven from the risk tolerance which is determined by reference to factors such as the underwriting cycle and the requirements of the capital providers. In a hard underwriting market, capital preservation is paramount in order to support the insurance business and, therefore, the risk tolerance for the capital assets will be low. Conversely, the risk tolerance for the underwriting assets under these circumstances will be relatively high due to the strong cash flow. In a soft underwriting market the opposite applies.

Investment risk is monitored by Investment Management using a market-recognised third-party risk model. Risk reporting is generated by Investment Management and an independent review conducted by the Risk function. These reports are then circulated to the IGC and the Risk & Solvency Committee.

Asset allocation

A Value at Risk (VaR) model is used to determine the optimum asset allocation for the current risk tolerance, which ensures that appropriate solvency levels are maintained for capital assets. The expected timescale for future cash flows in each currency is calculated by the Actuarial team; the average of these forms the basis of our asset liability duration management. Tactical ranges around these strategic asset allocations provide flexibility to ensure that an appropriate risk/reward balance is maintained in changing investment markets. The IGC reviews the asset allocation and guidelines for appropriateness to optimise investment returns within the risk tolerances.

Notes to the financial statements for the year ended 31 December 2019

10. Financial assets and liabilities (Continued)

Investment management

Investments are managed on a multi-asset, multi-manager basis. Exposure to the asset classes is achieved using physical holdings of the asset class or derivative instruments and may be managed by the Investment Management team or by outsourced managers, on a segregated, pooled or commingled basis. Manager selection is based on a range of criteria that leads to the expectation that they will add value to the funds over the medium to long-term. The managers have discretion to manage the investments on a day-to-day basis within investment guidelines and / or prospectuses applicable to their portfolios that ensure that they comply with the investment frameworks. The managers' performance, compliance and risk are monitored on an on-going basis.

The asset allocation of the Syndicate's investments is set out below.

	31 December 2019				31 December 2018			
	Underwriting assets £m	Capital assets £m	Total assets £m	Total %	Underwriting assets £m	Capital assets £m	Total assets £m	Total %
Government securities	867.6	-	867.6	37.5	780.7	-	780.7	31.0
Government agencies/guaranteed bonds	49.5	-	49.5	2.1	23.8	-	23.8	1.0
Asset-backed securities	28.9	-	28.9	1.3	22.2	-	22.2	0.9
Mortgage-backed securities – Prime	1.5	-	1.5	0.1	1.8	-	1.8	0.1
Corporate bonds	142.9	-	142.9	6.2	136.9	-	136.9	5.5
Total bonds	1,090.4	-	1,090.4	47.2	965.4	-	965.4	38.5
Equities	5.4	-	5.4	0.2	7.5	292.0	299.5	11.9
Pooled vehicles	400.8	368.9	769.7	33.2	302.1	517.0	819.1	32.7
Property funds	-	186.3	186.3	8.1	-	211.8	211.8	8.5
Other liquid investments & cash pooled vehicle	215.2	37.4	252.6	11.0	208.5	2.0	210.5	8.4
Other	-	7.1	7.1	0.3	-	1.2	1.2	0.0
Total	1,711.8	599.7	2,311.5	100.0	1,483.5	1,024.0	2,507.5	100.0

g) Market risk

Market risk concerns the risks associated with valuation, interest rates, liquidity and counterparty credit. Foreign exchange risk is described in note 9.

Valuation risk

The Syndicate's earnings are directly affected by changes in the valuations of the investments held in the portfolios. These valuations vary according to the movements in the underlying markets. The Syndicate's assets are marked to market at bid price. Prices are supplied by the custodians, whose pricing processes are covered by their published annual audits. In accordance with their pricing policies, prices are sourced from market recognised pricing vendor sources. These pricing sources use closing trades, or where more appropriate in illiquid markets, pricing models. Property funds are based on the most recent price available, which in some instances may be a quarter in arrears. Where a property transaction has taken place the transaction price is used if it is the most recent price available.

The managing agent operates an established control framework with respect to fair value measurement which ensures the valuation of financial assets and financial liabilities meets the requirements of FRS 102. As part of this process, the managing agent reviews the valuation policies of its custodians along with the evidence provided by the custodians to support fair value measurement. The prices are also reconciled to the fund managers' records to check for reasonableness.

Further details of the fair value measurement of financial assets and financial liabilities are included in note 10(e).

The valuation of investments is sensitive to equity risk. The impact on profit before tax of a 5% improvement/deterioration in the total market value of shares would be a £2.3 million gain/loss (2018: £8.0 million gain/loss) when applying a consistent methodology to the previous year.

Notes to the financial statements for the year ended 31 December 2019

10. Financial assets and liabilities (Continued)

Interest rate risk

Investors' expectations for interest rates will impact bond yields. The value of the Syndicate's bond holdings is therefore subject to fluctuation as bond yields rise and fall. If the yield falls the capital value will rise, and vice versa. The sensitivity of the price of a bond is indicated by its duration. The greater the duration of a security the greater its price volatility. Typically the longer the maturity of a bond the greater its duration.

The maturity bands of the Syndicate's bond holdings as at 31 December 2019 are shown below.

	31 December 2019	31 December 2018
	Underwriting assets £m	Underwriting assets £m
Less than 1 year	762.6	396.9
1-2 years	268.6	539.7
2-3 years	55.0	21.1
3-4 years	2.9	5.9
4-5 years	0.1	-
Over 5 years	1.2	1.8
	1,090.4	965.4

The liabilities are not currently discounted and therefore their value is not impacted by interest rate movements. Cash is raised, or the duration of the portfolio reduced, if it is believed that yields may rise and therefore capital values will fall. Included in the above is £4.0 million (2018: £3.4 million) of accrued interest.

The average durations of the bond and cash portfolios for the underwriting assets and associated insurance liabilities as at 31 December 2019 were as follows:

	31 December 2019		31 December 2018	
	Assets Years	Liabilities Years	Assets Years	Liabilities Years
Underwriting assets/liabilities				
Pound sterling	0.1	3.1	0.0	3.8
US dollar	0.9	3.1	0.6	3.8
Euro	0.1	4.4	0.0	4.9
Canadian dollar	1.2	4.0	0.3	4.7

h) Liquidity risk

It is important to ensure that claims are paid as they fall due. Levels of cash are therefore managed on a daily basis and buffers of liquid assets are also held in excess of the immediate requirements. This is to reduce the risk of being forced sellers of any of the Syndicate's assets, which may result in realising prices below fair value, especially in periods of below normal investment market activity. The policy of limiting the extent of duration divergence between the policyholders' assets and the liabilities helps to reduce the risk of a cash flow mismatch.

Notes to the financial statements for the year ended 31 December 2019

10. Financial assets and liabilities (Continued)

The following table indicates the contractual timing of cash flows arising from assets and liabilities for management of insurance contracts at 31 December 2019:

31 December 2019	Contractual cash flows (undiscounted)					Carrying amount £m
	No stated maturity £m	0-1 yr £m	1-3 yrs £m	3-5 yrs £m	>5 yrs £m	
Financial assets						
Debt and other fixed income securities		785.6	315.6	4.9	1.3	1,090.4
Shares and other variable yield securities	5.4	-	-	-	-	5.4
Participation in investment pools	195.9	-	-	-	-	195.9
Holdings in collective investment schemes	1,012.7	-	-	-	-	1,012.7
Other investments	7.1	-	-	-	-	7.1
Other debtors	-	1,115.4	-	-	-	1,115.4
Cash	102.3	-	-	-	-	102.3
Total financial assets	1,323.4	1,901.0	315.6	4.9	1.3	3,529.2
Financial liabilities						
Derivative financial instruments (net)	-	-	-	-	-	-
Total financial liabilities	-	-	-	-	-	-
Net financial assets	1,323.4	1,901.0	315.6	4.9	1.3	3,529.2

Expected cash flows (undiscounted)						
	No stated maturity £m	0-1 yr £m	1-3 yrs £m	3-5 yrs £m	>5 yrs £m	Carrying amount £m
Insurance liabilities						
Outstanding claims	-	1,215.6	1,160.3	526.9	443.1	3,345.9
Less reinsurers' share of outstanding claims	-	(365.9)	(349.3)	(158.6)	(133.3)	(1,007.1)
Creditors	-	523.1	-	-	-	523.1
Total	-	1,372.8	811.0	368.3	309.8	2,861.9
Difference in contractual cash flows	1,323.4	528.2	(495.4)	(363.4)	(308.5)	667.3

Contractual cash flows (undiscounted)						
31 December 2018	No stated maturity £m	0-1 yr £m	1-3 yrs £m	3-5 yrs £m	>5 yrs £m	Carrying amount £m
Financial assets						
Debt and other fixed income securities	-	660.3	315.0	9.9	27.3	965.4
Shares and other variable yield securities	7.5	-	-	-	-	7.5
Participation in investment pools	166.6	-	-	-	-	166.6
Holdings in collective investment schemes	1,366.8	-	-	-	-	1,366.8
Other investments	1.2	-	-	-	-	1.2
Other debtors	-	1,284.2	-	-	-	1,284.2
Cash	1.4	-	-	-	-	1.4
Total financial assets	1,543.5	1,944.5	315.0	9.9	27.3	3,793.1
Financial liabilities						
Derivative financial instruments	-	(2.8)	-	-	-	(2.8)
Total financial liabilities	-	(2.8)	-	-	-	(2.8)
Net financial assets	1,543.5	1,941.7	315.0	9.9	27.3	3,790.3

Notes to the financial statements for the year ended 31 December 2019

10. Financial assets and liabilities (Continued)

	Expected cash flows (undiscounted)					Carrying amount £m
	No stated maturity £m	0-1 yr £m	1-3 yrs £m	3-5 yrs £m	>5 yrs £m	
Insurance liabilities						
Outstanding claims	–	764.2	1,792.0	535.3	367.4	3,458.9
Less reinsurers' share of outstanding claims	–	(265.3)	(622.0)	(185.8)	(127.5)	(1,200.6)
Creditors	–	271.7	165.9	55.6	14.7	507.9
Total	–	770.6	1,335.9	405.1	254.6	2,766.2
Difference in contractual cash flows	1,543.5	1,171.1	(1,020.9)	(395.2)	(227.3)	1,024.1

Liquidity in the event of a major disaster is tested regularly using internal cash flow forecasts and realistic disaster scenarios. In addition, the policyholders' funds investment guidelines require at least 25% of the funds to be held in government bonds and/or cash equivalents, which are highly liquid. If a major insurance event occurs the investment strategy is reviewed to ensure that sufficient liquidity is also available in the corporate funds.

The current and non-current portions of the other non-derivative financial liabilities are available in notes 11(a)

i) Credit risk

Credit risk is the risk that the Syndicate becomes exposed to loss if a specific counterparty fails to perform its contractual obligations in a timely manner impacting the Syndicate's ability to meet its claims as they fall due. Credit risk can also arise from underlying causes that have an impact upon the creditworthiness of all counterparties of a particular description or geographical location. The Syndicate's credit risk is mitigated by the collateral received from counterparties, details of which are given in note 11(g). The Syndicate is exposed to credit risk in its investment portfolio and with its premium and reinsurance debtors. Collateral of £377.9 million (2018 £407.7 million) is held in third party trust funds to guarantee the Syndicate against reinsurance counterparties.

31 December 2019	Debt securities		Participation in investment pools		Insurance and reinsurance receivables		Reinsurers' share of outstanding claims	
	£m	%	£m	%	£m	%	£m	%
AAA	925.4	84.9	–	–	–	–	–	–
AA	43.2	4.0	–	–	–	–	133.6	13.3
A	107.1	9.8	–	–	109.7	8.1	634.9	63.0
BBB	14.7	1.3	–	–	–	–	–	–
Less than BBB	–	–	–	–	–	–	0.2	0.0
Not Rated	–	–	195.9	100.0	1,247.7	91.9	238.4	23.7
	1,090.4	100.0	195.9	100.0	1,357.4	100.0	1,007.1	100.0

31 December 2018	Debt securities		Participation in investment pools		Insurance and reinsurance receivables		Reinsurers' share of outstanding claims	
	£m	%	£m	%	£m	%	£m	%
AAA	808.9	83.8	–	–	–	–	110.4	9.2
AA	46.1	4.8	–	–	–	–	111.0	9.2
A	93.4	9.7	–	–	284.7	18.6	900.9	75.1
BBB	17.0	1.8	–	–	–	–	5.7	0.5
Less than BBB	–	–	–	–	–	–	0.2	0.0
Not Rated	–	–	166.6	100.0	1,243.5	81.4	72.3	6.0
	965.4	100.0	166.6	100.0	1,528.2	100.0	1,200.5	100.0

Notes to the financial statements for the year ended 31 December 2019

10. Financial assets and liabilities (Continued)

The geographical splits were as follows:

Region	31 December 2019		31 December 2018	
	Gross equities %	Total %	Gross equities %	Total %
UK	1.8	1.8	2.1	2.1
US and Canada	-	-	0.1	0.1
Europe (excluding UK)	98.2	98.2	97.8	97.8
	100.0	100.0	100.0	100.0

As the managing agent does not directly hold any listed equities, the geographical allocation is based on the domicile of the Toro Funds

Insurance and reinsurance

The table on page 32 includes premium receivables, representing amounts due from policyholders. The quality of these receivables is not graded, but based on historical experience there is limited default risk relating to these amounts. Credit risk in respect of premium debt is overseen by the Syndicate's Broker Committee and managed through a number of controls that include broker approval, annual financial review and internal rating of brokers and regular monitoring of premium settlement performance.

Also included are reinsurance receivables, which represent the amounts due at 31 December 2019, as well as amounts, expected to be recovered on unpaid outstanding claims (including IBNR) in respect of earned risks. These are stated net of provisions for impairment. The credit risk in respect of reinsurance receivables, including reinsurers' share of outstanding claims, is primarily managed by review and approval of reinsurance security by the Reinsurance Security Committee prior to the purchase of the reinsurance contract. Guidelines are set, and monitored, that restrict the purchase of reinsurance security based on the internal ratings for each reinsurer and Standard & Poor's ratings. The Syndicate holds collateral from certain reinsurers including those that are non-rated as security against potential default. The details of reinsurance collaterals held and placed with third party trust funds are provided in note 10(i). Provisions are made against the amounts due from certain reinsurers, depending on the age of the debt and the current rating assigned to the reinsurer. The impact on profit before tax of a 1% variation in the reinsurance assets would be £10.0 million (2018: £12.0 million). The details of overdue reinsurance assets and insurance receivables are provided in notes 11(a) and 11(e).

Investments

As well as actual failure of a counterparty to perform its contractual obligations, the price of corporate bond holdings will be affected by investors' perception of a borrower's credit worthiness. Credit risk within the investment funds is managed through the credit research carried out by the investment managers. The investment guidelines are designed to mitigate credit risk by ensuring diversification of the holdings. For each portfolio there are limits to the exposure to single issuers and to the total amount that can be held in each credit quality rating category, as determined by reference to credit rating agencies. At 31 December 2019, directly held bonds accounted for 47.2% of the portfolio (2018: 38.5%), the residual of the portfolio was held mostly in collective investment schemes. The credit ratings on debt securities are BNP Paribas composite ratings based on Standard & Poor's, Moody's and Fitch.

j) Offsetting financial assets and financial liabilities

The Syndicate's derivative transactions with respect to over-the-counter options and currency forwards are subject to International Swaps and Derivatives Association (ISDA) master netting agreements. Transactions under such agreements meet the criteria for offsetting in the Syndicate's statement of financial position. The Syndicate also receives and pledges collateral in the form of cash in respect of the derivative transactions. The fair value of the Syndicate's options and currency forwards are not offset by such collaterals as they create a right of set-off that is enforceable only following an event of default, insolvency or bankruptcy of the Syndicate or the counterparties.

The Syndicate listed futures are transacted under Global Principal Clearing agreements and are not subject to offsetting in the statement of financial position. In addition, the Syndicate and its counterparties do not intend to settle on a net basis or to realise the assets and the liabilities simultaneously.

Notes to the financial statements for the year ended 31 December 2019

10. Financial assets and liabilities (Continued)

The disclosure provided in the tables below include derivatives that are set off in the Syndicate's statement of financial position at 31 December 2019, there is no designated hedge accounting relationship (2018: £Nil).

Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements

	Gross amounts of recognised financial assets/ (liabilities) £m	Gross amounts of recognised financial (liabilities)/assets set off in the statement of financial position £m	Net amounts presented in the statement of financial position £m	Related amounts not set off in the statement of financial position		
				Financial instruments £m	Cash collateral movements £m	Net Amount £m
31 December 2019						
Derivative instruments held for trading asset	411.2	(406.9)	4.3	0.2	(4.6)	(0.1)
Derivative instruments held for trading liability	(209.8)	205.5	(4.3)	(2.5)	17.3	10.5
Net	201.4	(201.4)	0.0	(2.3)	12.7	10.4

	Gross amounts of recognised financial assets/ (liabilities) £m	Gross amounts of recognised financial (liabilities)/assets set off in the statement of financial position £m	Net amounts presented in the statement of financial position £m	Related amounts not set off in the statement of financial position		
				Financial instruments £m	Cash collateral movements £m	Net Amount £m
31 December 2018						
Derivative instruments held for trading asset	458.2	(449.8)	8.4	1.0	0.8	10.2
Derivative instruments held for trading liability	(580.8)	591.7	10.9	1.3	(11.8)	0.4
Net	(122.6)	141.9	19.3	2.3	(11.0)	10.6

k) Restricted funds held by the Syndicate

At 31 December 2019, the Syndicate holds restricted funds in the form of trust fund investments, letter of credit (LOC) collaterals, initial margin calls on derivative financial instruments and collateral received from reinsurance counterparties.

Trust funds

The Syndicate holds gross assets of £5,618.5 million (2018: £6,219.5 million), offset by gross liabilities of £5,027.9 million (2018: £5,358.7 million), which are held within individual trust funds. The assets cannot be obtained or used until such time as each Syndicate underwriting year is closed and profits are distributed, or an advance profit release is made. The Funds in Syndicate, as set out on page 15 in the Statement of changes in member's balance as funds deposited by MS Amlin Corporate Member Limited, represent the restricted capital for regulatory purposes.

Letter of Credit (LOC) facilities

At 31 December 2019, the Syndicate recognised £0.9 million (2018: £1.2 million) of cash drawn down from LOC facilities as a liability on the statement of financial position. This has been received from reinsurance counterparties as a guarantee for business written and is included within total funds held by the Syndicate.

The Syndicate also holds AUD\$150 million (£78.5 million) (2018: AUD\$Nil) in a National Australia Bank Limited account to enable the Syndicate to transact business in Australia.

Derivative margins and collateral

Derivative instruments traded give rise to collateral being placed with, or received from, external counterparties. At 31 December 2019, included in other receivables and other payables are £9.5 million (2018: £6.4 million) margins and collaterals pledged and £Nil (2018: £Nil million) margins and collaterals held in relation to listed futures margins and other derivatives respectively.

Notes to the financial statements for the year ended 31 December 2019

10. Financial assets and liabilities (Continued)

Reinsurance collateral received

Collateral of £1,326.0 million (2018: £1,604.7 million) is held in third party trust funds to guarantee the Syndicate against reinsurance counterparties.

Insurance collateral placed

The Syndicate holds £978.3 million (2018: £850.8 million) of collateral in a US trust fund to meet US regulatory requirements, which are recognised as an asset to the Syndicate.

11. Insurance liabilities and reinsurance assets

a) Net outstanding claims

	2019			2018		
	Insurance liabilities £m	Reinsurer's share £m	Net liabilities £m	Insurance liabilities £m	Reinsurer's share £m	Net liabilities £m
Outstanding claims						
At 1 January	3,458.9	(1,200.6)	2,258.3	2,911.3	(944.5)	1,966.8
Claims incurred during the current year	1,362.4	(276.8)	1,085.6	1,860.6	(721.9)	1,138.7
Movements arising from prior year claims	51.4	(35.9)	15.5	40.5	(59.5)	(19.0)
	1,413.8	(312.7)	1,101.1	1,901.1	(781.4)	1,119.7
Claims paid during the year	(1,424.8)	476.7	(948.1)	(1,421.7)	494.6	(927.1)
Change in provision for claims	(11.0)	164.0	153.0	479.4	(286.8)	192.6
Foreign exchange (gains)/losses	(102.0)	29.5	(72.5)	68.2	30.7	98.9
At 31 December	3,345.9	(1,007.1)	2,338.8	3,458.9	(1,200.6)	2,258.3

Further information on the calculation of outstanding claims and the risks associated with them is provided in note 11(i). Outstanding claims are further analysed between notified outstanding claims and claims incurred but not reported below:

	2019			2018		
	Insurance liabilities £m	Reinsurer's share £m	Net liabilities £m	Insurance liabilities £m	Reinsurer's share £m	Net liabilities £m
Outstanding claims						
Notified outstanding claims	1,726.7	(455.6)	1,271.1	1,636.6	(434.1)	1,202.5
Claims incurred but not reported	1,619.2	(551.5)	1,067.7	1,822.3	(766.5)	1,055.8
	3,345.9	(1,007.1)	2,338.8	3,458.9	(1,200.6)	2,258.3

The total reinsurers' share of outstanding claims is set out in the table below:

	2019 £m	2018 £m
Reinsurers' share of outstanding claims	1,007.5	1,201.3
Less provision for impairment of receivables from reinsurers	(0.4)	(0.7)
	1,007.1	1,200.6

The managing agent assesses the Syndicate's reinsurers' share of outstanding claims for impairment on a quarterly basis by reviewing counterparty payment history and credit grades provided by rating agencies. The credit ratings of the Syndicate's reinsurers' share of outstanding claims are shown in note 10(i).

At 31 December 2019 and 2018 the reinsurers' share of outstanding claims was not overdue. The Syndicate holds collateral of £1,326.0 million (2018: £1,604.7 million) in relation to reinsurers' share of outstanding claims. Details are included in note 10(i).

Notes to the financial statements for the year ended 31 December 2019

b) Claims development

The tables below illustrate the development of the estimates of cumulative claims for the Syndicate on an underwriting year basis, illustrating how amounts booked have developed from one reporting period to the next. All tables are prepared on an undiscounted basis. Non-pound sterling balances have been converted using 2019 year end exchange rates to aid comparability.

Estimate of cumulative claims	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	2018 £m	2019 £m	Total £m
At end of first year	544.5	519.6	464.9	520.6	450.1	547.7	1,273.6	947.7	556.1	
One year later	876.4	833.3	869.3	901.6	920.7	1,232.9	2,157.9	1,680.7		
Two years later	862.6	839.5	851.8	950.4	980.7	1,361.5	2,248.6			
Three years later	872.0	813.1	904.0	994.7	1,040.2	1,352.7				
Four years later	871.0	809.1	878.8	957.4	982.3					
Five years later	853.8	821.1	894.5	944.0						
Six years later	875.7	822.5	885.3							
Seven years later	867.5	816.8								
Eight years later	865.2									
Cumulative payments	(826.7)	(778.6)	(815.5)	(833.1)	(759.1)	(919.9)	(1,346.3)	(728.7)	(105.8)	
Estimated balance to pay	38.5	38.2	69.9	110.9	223.2	432.8	902.3	952.0	450.3	3,218.1
Gross claim reserve 2010 & prior										127.8
Gross claim reserve										3,345.9

Estimate of cumulative claims	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	2018 £m	2019 £m	Total £m
At end of first year	339.2	364.8	336.8	379.4	335.9	421.2	647.5	563.3	411.8	
One year later	592.7	608.2	623.5	664.5	711.3	916.7	1,205.9	1,138.9		
Two years later	593.8	619.1	626.5	717.0	696.7	973.2	1,297.0			
Three years later	629.2	598.0	681.7	807.5	779.3	990.8				
Four years later	630.0	629.5	649.9	766.7	727.6					
Five years later	617.6	641.7	673.1	759.3						
Six years later	629.9	637.4	662.9							
Seven years later	624.1	632.9								
Eight years later	634.8									
Cumulative payments	(605.3)	(602.1)	(603.8)	(659.6)	(543.3)	(630.4)	(758.5)	(491.3)	(89.2)	
Estimated balance to pay	29.5	30.8	59.1	99.7	184.3	360.4	538.5	647.5	322.6	2,272.4
Net claim reserve 2010 & prior										66.4
Net claim reserve										2,338.8

	2019 £m	2018 £m
Total for all underwriting years		
Net reserves recognised	2,338.8	2,258.3
Amounts recovered from reinsurers	1,007.1	1,200.6
Gross reserves included in balance sheet	3,345.9	3,458.9

Notes to the financial statements for the year ended 31 December 2019

11. Insurance liabilities and reinsurance assets (Continued)

c) Net unearned premium

	2019			2018		
	Insurance liabilities £m	Reinsurers' share £m	Net liabilities £m	Insurance liabilities £m	Reinsurers' share £m	Net liabilities £m
Unearned premium						
At 1 January	1,369.2	(216.3)	1,152.9	1,290.3	(232.1)	1,058.2
Change in provision for unearned premium	(186.5)	10.6	(175.9)	57.1	20.9	78.0
Foreign exchange (gains)/losses	(43.2)	14.9	(28.3)	21.8	(5.1)	16.7
At 31 December	1,139.5	(190.8)	948.7	1,369.2	(216.3)	1,152.9

The current and non-current portions for unearned premium are expected to be as follows:

	2019			2018		
	Insurance liabilities £m	Reinsurers' share £m	Net liabilities £m	Insurance liabilities £m	Reinsurers' share £m	Net liabilities £m
Unearned premium						
Current portion	1,056.0	(183.3)	872.7	1,153.9	(182.3)	971.6
Non-current portion	83.5	(7.5)	76.0	215.3	(34.0)	181.3
At 31 December	1,139.5	(190.8)	948.7	1,369.2	(216.3)	1,152.9

d) Deferred acquisition costs

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

	Note	2019 £m	2018 £m
At 1 January		332.6	311.3
Change in deferred acquisition costs	5	(47.7)	16.0
Foreign exchange		(10.4)	5.3
At 31 December		274.5	332.6

The current and non-current portions are expected to be as follows:

	2019 £m	2018 £m
Current portion	239.4	289.6
Non-current portion	35.1	43.0
	274.5	332.6

Notes to the financial statements for the year ended 31 December 2019

11. Insurance liabilities and reinsurance assets (Continued)

e) Insurance and reinsurance receivables

	2019 £m	2018 £m
Due from policyholders	624.3	708.4
Due from intermediaries	752.0	835.3
Less provision for impairment of receivables from contract holders and agents	(18.9)	(15.5)
Insurance and reinsurance receivables	1,357.4	1,528.2

The current and non-current portions are expected to be as follows:

	2019 £m	2018 £m
Current portion	1,357.4	1,528.2
Non-current portion	-	-
	1,357.4	1,528.2

Receivables arising from reinsurance contracts are comprised principally of amounts recoverable from reinsurers in respect of paid claims and premium receivables on inward reinsurance business, including reinstatement premium.

The managing agent assesses the Syndicate's insurance and reinsurance receivables for impairment on a quarterly basis by reviewing counterparty payment history and for circumstances which may give rise to a dispute or default. At 31 December 2019, insurance and reinsurance receivables at a nominal value of £47.1 million (2018: £24.1 million) were greater than three months overdue and provided for on the basis of credit rating to the value of £18.9 million (2018: £15.5 million).

The carrying amounts disclosed above are reasonably approximate to the fair value at the reporting date.

The ageing analysis of insurance and reinsurance receivables overdue, before impairment provision, is as follows:

	2019 £m	2018 £m
Not overdue or less than 3 months	1,329.2	1,519.6
3 to 6 months	20.3	4.7
6 months to 1 year	8.7	8.3
Greater than 1 year	18.1	11.1
	1,376.3	1,543.7

Movements on the Syndicate's provision for impairment of receivables from contract holders and agents are as follows:

	2019 £m	2018 £m
At 1 January	15.5	8.6
Increase in the provision	3.4	6.9
At 31 December	18.9	15.5

Insurance and reinsurance payables

	2019 £m	2018 £m
Creditors arising out of direct insurance operations	217.3	278.1
Creditors arising out of reinsurance operations	287.4	213.5
Insurance and reinsurance payables	504.7	491.6

Of the insurance and reinsurance payables 100% (2018: 94%) of the balances are considered to be current and 0% (2018: 6%) non-current. The carrying amounts disclosed above are reasonably approximate to the fair value at the reporting date. Insurance payables are comprised principally of premium payable for reinsurance, including reinstatement premium.

Notes to the financial statements for the year ended 31 December 2019

11. Insurance liabilities and reinsurance assets (Continued)

f) Underwriting risk

The Syndicate accepts underwriting risk in a range of classes of business through three distinct underwriting divisions. The bias of the portfolio is towards short-tail property and accident risk but liability coverage is also underwritten.

In underwriting insurance or reinsurance policies the underwriters use their skill and knowledge to assess each risk. Exposure information and data on past claims experience is used to evaluate the likely claims cost and therefore the premiums that should be sufficient (across a portfolio of risks) to cover claims costs, expenses and to produce an acceptable profit. However, due to the nature of insurance risk there is no guarantee that the premiums charged will be sufficient to cover claims costs. This shortfall may originate either from insufficient premiums being calculated and charged or result from an unexpected, or unprecedented, high level of claims.

A number of controls are deployed to limit the amount of insurance exposure underwritten. Each year a business plan is prepared and agreed which is used to monitor the amount of premium income, and exposure, to be written in total and for each class of business. Progress against this plan is monitored during the year. These premiums and exposures can be exceeded in exceptional circumstances but only with the approval of senior management. Apart from the UK, and some of the international, comprehensive motor liability portfolio, which has unlimited liability, all policies have a per loss limit which caps the size of any individual claims. For larger sum insured risks reinsurance coverage may be purchased. The managing agent uses line guides that determine the maximum liability per policy that can be written for each class (on a gross or net of facultative reinsurance basis) by each underwriter. The Syndicate is also exposed to catastrophe losses which may impact many risks in a single event. Reinsurance is purchased to limit the impact of loss aggregation from such events. These reinsurance arrangements are described below.

Insurance liabilities are written through individual risk acceptances, reinsurance treaties or through facilities whereby the Syndicate is bound by other underwriting entities. Facility arrangements delegate underwriting authority to other underwriters, or to agents acting as coverholders, that use their judgement to write risks on the Syndicate's behalf under clear authority levels.

The insurance liabilities underwritten by the Syndicate are reviewed on an individual risk, or contract, basis and through review of portfolio performance. All claims arising are reserved upon notification. Each quarter the entire portfolio of business is subject to a reserving process whereby levels of paid and outstanding (advised but not paid) claims are reviewed. Potential future claims are assessed with a provision for incurred but not reported (IBNR) claims being made. Whilst a detailed and disciplined exercise is carried out to provide for claims notified, it is possible that known claims could develop and exceed the reserves carried.

Furthermore, there is increased uncertainty in establishing an accurate provision for IBNR claims and there is a possibility that claims may arise which, in aggregate, exceed the reserve provision established. This is partly mitigated by the reserving policy adopted by the Syndicate which is to carry reserves in excess of the mean actuarial best estimate.

The review of claims arising may result in underwriters adjusting pricing levels to cater for an unexpectedly higher trend of claims advices or payments. However, this may not be possible in a competitive market and underwriters may respond either by accepting business with lower expected profit margins or declining to renew policies and thus reducing income. Also, there is a portfolio of risk already underwritten which cannot be re-priced until renewal at the end of the policy period.

The Syndicate is exposed to the impact of large catastrophe events such as windstorms, earthquakes or terrorist incidents. Exposure to such events is controlled and measured through loss modelling. It is possible that a catastrophe event could exceed the maximum expected event loss. This is particularly the case for the direct property proportion of the loss exposure, where models are used to calculate a damage factor representing the amount of damage expected to exposed aggregate insured values from a particular scenario. Errors, or incorrect assumptions in the damage factor calculation, can result in incurred catastrophe event claims higher, or lower, than predicted due to unforeseen circumstances, inadequacies in data, or shortcomings in the models used.

g) Reinsurance and other risk mitigation arrangements

The Syndicate purchases proportional reinsurance to supplement line size and to reduce exposure on individual risks. A part of the premiums ceded under such facilities is placed with MS Amlin AG and Amlin Insurance SE under variable quota share agreements. The Syndicate also purchases a number of excess of loss reinsurances to protect itself from severe frequency or size of losses. The structure of the programme and type of protection bought will vary from year to year depending on the availability and price of cover.

Additionally, a 17.5% whole account quota share arrangement of the net book of the Syndicate, excluding the P&C UK Business, is written by MS Amlin AG (Bermuda branch) each year, commuting after three years in line with the three-year Lloyd's YoA reporting cycle.

Notes to the financial statements for the year ended 31 December 2019

11. Insurance liabilities and reinsurance assets (Continued)

An adverse development cover (ADC) reinsurance contract was purchased in December 2018. This provides whole account protection against future deterioration of the actuarial best estimate of claims as at 31 December 2018 in respect of the 2018 and prior years' earned business, above an excess and with certain liabilities excluded, up to the limit of the reinsurer's liability. As a management margin was held in excess of the actuarial best estimate, reinsurance recoveries were recognised in 2018 for the element of this margin that would be recoverable under the contract. The premium paid for the contract was expensed in 2018 in relation to the level of cover exhausted. In 2019, there has been favourable development in the claims estimates that are covered by the contract. The benefit of this reduction (£64.8m) in the best estimate reserves was offset by a reduction in the reinsurance recoverable under the ADC contract (£34.7m).

During 2018 the Syndicate purchased reinsurance by means of a loss portfolio transfer of its European (predominantly Irish) employers' liability/general liability portfolio.

h) Realistic Disaster Scenario (RDS) analysis

The Syndicate has a defined event risk tolerance, which determines the maximum net loss that the Syndicate intends to limit its exposure to major catastrophe event scenarios. At 31 December 2019 the maximum net loss was £148.7 million for the Syndicate (2018: £171.3 million). The aforementioned numbers are based on the reporting period's FX rates.

These maximum losses are expected only to be incurred in extreme events – with an estimated occurrence probability for the elemental losses of approximately 1 in 50 years for each relevant natural peril region. The Syndicate also adopts risk tolerance maximum net limits for a number of other non-elemental scenarios including aviation collision, North Sea rig loss, and terrorism, cyber and casualty events.

The risk tolerance policy recognises that there may be circumstances in which the net event limit could be exceeded. Such circumstances include changes in rates of exchange, non-renewal or delay in renewal of reinsurance protection, reinsurance security failure, or regulatory and legal requirements.

A detailed analysis of catastrophe exposures is carried out every quarter and measured against the event risk tolerance. The following assumptions and procedures are used in the process:

- The data used reflects the information supplied to the Syndicate by insureds and ceding companies. This may prove to be incomplete, inaccurate or could develop during the policy period.
- The exposures are modelled using a mixture of stochastic models and underwriter input to arrive at damage factors – these factors are then applied to the assumed aggregate exposure to produce gross loss estimates. The damage factors may prove to be inadequate.
- The reinsurance programme as purchased is applied – a provision for reinsurer counterparty failure is analysed but may prove to be inadequate.
- Reinstatement premiums both payable and receivable are included.

There is no guarantee that the assumptions and techniques deployed in calculating these event loss estimate figures are accurate. Furthermore, there could also be a loss which exceeds these figures. The likelihood of such a catastrophe is considered to be remote but the most severe scenarios modelled are simulated events and these simulations could prove to be unreliable.

i) Claims reserving and IBNR

The Syndicate adopts a rigorous process in the calculation of an adequate provision for insurance claim liabilities. The overriding aim is to establish reserves which are expected to be at least adequate and that there is consistency from year to year. Therefore, the reserves are set at a level above the mean actuarial 'best estimate' position. However, there is a risk that, due to unforeseen circumstances, the reserves carried are not sufficient to meet insurance claim liabilities reported in future years on policy periods which have expired.

Process and methodology

The reserving process commences with the proper recording and reporting of claims information which consists of paid and notified or outstanding claims. For the London market business information is received through the London Market Bureau. Claims records are maintained for each policy and class. For notified or outstanding claims, a case reserve is established based on the views of underwriting management and claims managers, using external legal or expert advice where appropriate. This reserve is expected to be sufficient to meet the claim payment when it is finally determined. For some classes of business, particularly liability business, settlement may be several years after the initial notification of the claim, as it may be subject to complexities or court action. For claims received from the London Market Bureau, the market reserve is generally set by the lead underwriter, but there are circumstances with larger claims where the Syndicate will post higher reserves than those notified.

Notes to the financial statements for the year ended 31 December 2019

11. Insurance liabilities and reinsurance assets (Continued)

To assist with the process of determining the reserves, triangulation statistics for each class are produced which show the historical development of premium, as well as paid and incurred losses, for each underwriting year. In all cases, the different potential development of each class of business is fully recognised. The development period varies by class, by method of acceptance and is also determined by the deductible of each policy written. For casualty business, the policy form will determine whether claims can be made on a claims made (as advised) or on a losses occurring (determined by date of loss) basis. This has a significant impact on the reporting period in which claims can be notified.

Management obtained a Statement of Actuarial Opinion from an external provider which also assists in the challenge of best estimate reserves.

IBNR

To establish a provision for IBNR claims, the actuarial team uses their experience and knowledge of the classes of business to estimate the potential future development of the incurred claims for each class for each underwriting year. This is known as the 'best estimate'. In setting the IBNR provision, estimates are made for the ultimate premium and ultimate gross claims value for each underwriting year. Allowance is then made for anticipated reinsurance recoveries to reach a net claim position.

Reinsurance recoveries are calculated for outstanding and IBNR claims, sometimes through the use of historical recovery rates or statistical projections, and provisions are made as appropriate for bad debt or possible disputes. The component of ultimate IBNR provision estimates and reinsurance recoveries that relates to future events occurring to the existing portfolio is removed in order to reflect generally accepted accounting practice. Meetings are initially held for each business unit in which underwriters and actuaries discuss the initial proposed estimates and revise them if it is felt necessary. At the next round of meetings, management discuss reserving issues with the actuaries and underwriters and challenge the proposed estimates. At this meeting, management propose the 'margin' for risk to be added to the best estimate, assisted by diagnostics produced from the internal model. The reserves are finally challenged at the audit committee meeting which will recommend approval by the Board.

Areas of uncertainty

The reserves established can be more or less than adequate to meet eventual claims arising. The level of uncertainty varies significantly from class to class but can arise from inadequate case reserves for known large losses and catastrophes or from inadequate provision for IBNR claims. The impact on profit of a 1% improvement/deterioration in the total net claims reserves would be £23.4 million gain/loss (2018: £22.6 million).

Property catastrophe claims, such as earthquake or hurricane losses can take several years to develop as adjusters visit damaged property and agree claim valuations. Until all the claims are settled it requires an analysis of the area damaged, contracts exposed and the use of models to simulate the loss against the portfolio of exposure in order to arrive at an estimate of ultimate loss to the Syndicate. There is uncertainty over the adequacy of information and modelling of major losses for a period that can range from several months to a number of years after a catastrophe loss. Account should also be taken of factors which may influence the size of claims such as increased repair cost inflation or a change in law.

The long tail liability classes represent the most difficult classes to project because often claims are notified and settled several years after the expiry of the policy concerned. This is particularly the case for liability business written on a losses occurring basis.

The use of historical development data is fundamental to reserving these classes. It is used in conjunction with the advice of lawyers and third party claims adjusters on material single claims. Known changes to wordings or the claims environment are also considered.

The allocation of IBNR to the reinsurance programme is an uncertain exercise as there is limited knowledge of the size or number of future claims advices. The assumption over future reinsurance recoveries may be incorrect and unforeseen disputes could arise which would reduce recoveries made.

The estimated premium income in respect of facility contracts, for example, binding authorities and lineslips, are deemed to be written in full at the inception of the contract but actual premium may exceed or fail to meet initial estimates. The magnitude of claims arising from such facilities may differ from estimates as a result of differences between estimated and actual premium.

12. Overseas deposits

Overseas deposits represent balances held with overseas regulators to permit underwriting in certain territories. These assets are managed by Lloyd's on a pooled basis and are predominantly invested in debt and other fixed income securities.

Notes to the financial statements for the year ended 31 December 2019

13. Capital

Capital framework at Lloyd's

The Society of Lloyd's (Lloyd's) is a regulated undertaking and subject to the supervision of the Prudential Regulatory Authority (PRA) under the Financial Services and Markets Act 2000.

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

Although, as described below, Lloyd's capital setting processes use a capital requirement set at syndicate level as a starting point, the requirement to meet Solvency II and Lloyd's capital requirements apply at overall and member level only respectively, not at syndicate level. Accordingly the capital requirement in respect of Syndicate 2001 is not disclosed in these financial statements.

Lloyd's capital setting process

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

A syndicate may be comprised of one or more underwriting members of Lloyd's. Each member is liable for its own share of underwriting liabilities on the syndicate(s) on which it participates but no other members' shares. Accordingly, the capital requirement that Lloyd's sets for each member operate on a similar basis. Each member's SCR shall thus be determined by the sum of the member's share of the syndicate SCR 'to ultimate'. Where a member participates on more than one syndicate, a credit for diversification is provided to reflect the spread of risk, but consistent with determining a SCR which reflects the capital requirement to cover a 1 in 200 year loss 'to ultimate' for that member. Over and above this, Lloyd's applies capital uplift to the member's capital requirement, known as the Economic Capital Assessment (ECA). The purpose of this uplift, which is a Lloyd's not a Solvency II requirement, is to meet Lloyd's financial strength, licence and ratings objectives. The capital uplift applied for 2019 was 35% (2018: 35%) of the member's SCR 'to ultimate'.

Provision of capital by members

Each member may provide capital to meet its ECA either by assets held in trust by Lloyd's specifically for that member (Funds at Lloyd's), held within and managed within a syndicate (FIS) or as the member's share of the members' balances on each syndicate on which it participates.

Accordingly all of the assets less liabilities of the Syndicate, as represented in the member's balance reported on the statement of financial position on page 13, represent resources available to meet the member's and Lloyd's capital requirements. The Syndicate has only one member, MS Amlin Corporate Member Limited, and all of its capital for the 2019 and prior years of account is provided as FIS.

14. Other risk disclosures

a) Regulatory risk

Regulatory risk is the risk that the Syndicate fails to meet the regulatory requirements of the Financial Conduct Authority, Prudential Regulation Authority and Lloyd's. Lloyd's requirements include those imposed on the Lloyd's market by overseas regulators, particularly in respect of US situs business. The managing agent has a Compliance Officer who monitors regulatory developments and assesses the impact on agency policy.

b) Operational risk

Operational risk is the risk that failure of people, systems or processes leads to losses to the Syndicate. These risks are managed through the use of detailed procedure manuals and monitoring of compliance. In addition, the MSI Group has both a Risk and Internal Audit function which assist the managing agent to meet the strategic and operational objectives for the Syndicate through the provision of independent appraisal of the adequacy and effectiveness of internal controls in operation and to provide reasonable assurance as to the adequacy of systems and procedures to enable compliance with all relevant regulatory and legal requirements.

Notes to the financial statements for the year ended 31 December 2019

15. Related parties

Ultimate parent company and parent undertaking of larger group of which the managing agent is a member

The smallest group of undertakings of which the managing agent is a member and for which group financial statements are prepared is Mitsui Sumitomo Insurance Company, Limited, a company incorporated in Japan. The ultimate parent company and controlling party is MS & AD Insurance Group Holdings, Inc., a company incorporated in Japan and is the largest group of undertakings in which the managing agent is a member and for which group financial statements are prepared.

Consolidated financial statements for the smallest and largest group undertakings are available to the public and may be obtained from the Company Secretary at The Leadenhall Building, 122 Leadenhall Street, London, EC3V 4AG.

The ultimate parent company address is Tokyo Sumitomo Twin Building (West Tower), 27-2, Shinkawa 2 Chome, Chuo-ku, Tokyo, Japan. The address of Mitsui Sumitomo Insurance Company, Limited is 9, Kanda-Surugadai 3 Chome, Chiyoda-ku, Tokyo, Japan.

MS Amlin Corporate Member Limited

Lloyd's capital requirements reduced during 2019 along with MSI Group's decision to increase capital through the current Funds At Lloyd's arrangements, this allowed Funds in Syndicate to release £490.5 million in comparison to the 2018 funding requirements of £322.0 million. The invested assets for the calendar year returned £67.8 million income compared to the 2018 loss of £3.7 million.

MS Amlin Underwriting Limited

Managing agent's fees of £30.8 million (2018: £16.6 million) were charged to the Syndicate during the year. There have been no transactions entered into or carried out during the year by the managing agent on behalf of the Syndicate in which it or any of its executives had directly or indirectly a material interest.

MS Amlin Corporate Services Limited

MS Amlin Corporate Services Limited was paid £139.1 million during the year (2018: £185.9 million) for expenses incurred directly and indirectly on behalf of the Syndicate. This included a management charge of £88.2 million (2018: £103.8 million) for central costs of the MSI Group that are attributable to the Syndicate. These expenses are shown in administrative expenses net of the allocation to claims handling costs. There is no profit element in the amounts paid to MS Amlin Corporate Services Limited. At 31 December 2019 the amount due from MS Amlin Corporate Services Limited was £14.3 million (2018: £14.0 million).

MS Amlin AG Bermuda (Branch)

The Syndicate placed a 17.5% whole account quota share reinsurance contract with Amlin Bermuda (AB) for the 2019 year of account excluding P&C UK Business. (2018: 17.5%).

All reinsurance contracts are agreed on an arm's length basis with terms that are consistent with those negotiated with third parties. The total premiums (less commissions retained) payable to AB in respect of 2019 were £170.9 million (2018: £202.3 million), of which £36.7 million (2018: £57.4 million) were outstanding as at 31 December 2019

MS Amlin AG Zurich (Branch)

During 2019, P&C UK entered a quota share arrangement of 100% of its Employee's Liability and General Liability books with MS Amlin AG Zurich.

The total premiums for the year were £21.9 million (2018: £Nil) with £1.9 million (2018: £Nil) outstanding as at 31 December 2019.

Amlin Insurance SE

Total premiums (less commissions retained) payable to Amlin Insurance S.E. (AISE) in respect of run-off in 2019 were £3.6 thousand (2018: £242.1 thousand) of which £142.5 thousand (2018: £1,637.0 thousand) were outstanding at 31 December 2019. Premiums receivable from AISE in respect of these quota share arrangements were £31.6 thousand (2018: £345.2 thousand).

Leadenhall Capital Partners LLP

The Syndicate wrote £214.8 million (2018: £117.8 million) of gross premium and received £9.7 million (2018: £5.3 million) of commissions through this arrangement. As at 31 December 2019, the Syndicate had £152.0 million (2018: £162.7 million) receivable, all of which is collateralised.

Notes to the financial statements for the year ended 31 December 2019

15. Related parties (Continued)

Eagle Underwriting Limited

During the year Eagle wrote £0.5 million premium (2018: £3.4 million) (net of original brokerage) on behalf of the Syndicate.

Service companies and brokers

The service companies and brokers and the income received and expenses incurred by the Syndicate are summarised below.

Service company	Insurance class of business introduced	2019	2018	2019	2018	2019	2018	2019	2018
		Gross written premium	Gross written premium	Commission/ brokerage paid	Commission/ brokerage paid	Profit commission paid	Profit commission paid	Management charge paid	Management charge paid
		£m	£m	£m	£m	£m	£m	£m	£m
MS Amlin Underwriting Services Limited	Dinghy, yacht, super yacht, livestock and equine insurance	32.8	58.5	6.7	12.8	-	0.1	4.7	5.4
MS Amlin Asia Pacific Pte Limited	General insurance and reinsurance	44.5	36.4	4.3	2.3	-	-	8.4	7.0
MS Amlin Labuan Limited	General insurance and reinsurance	3.4	4.1	0.7	0.7	-	-	0.2	0.2
AUA Insolvency Risk Services Limited	Insolvency practitioners' insurance	10.8	3.2	2.2	0.8	-	-	3.1	4.3
MS Amlin Reinsurance Managers Inc.	Casualty and professional liability reinsurance	85.4	162.5	25.3	47.1	-	-	4.6	5.4
MS Amlin Marine nv	Marine liability protection and indemnity insurance	9.8	30.5	1.7	6.3	-	-	4.1	10.0
MS Amlin (MENA) Limited	Marine, War/Terrorism, Yacht, Cargo	6.7	6.0	1.5	1.5	-	-	1.9	2.1
MS Amlin (India) private Ltd		-	(0.9)	-	(0.2)	-	-	-	1.1

The entire share capital of these companies is held by MSI Group and its subsidiaries.

No fees are paid by these companies to any of the directors of the managing agent.

As at 31 December 2019, the Syndicate also had £108.0 million (2018: £87.8 million) receivable from MS Amlin Asia Pacific Pte Limited.

Toro Prism Trust

During the year, the Syndicate invested in the Toro Prism Trust which is an open-ended investment unit trust authorised by the Central Bank of Ireland as a UCITS (Undertakings for Collective Investment in Transferable Securities) regulated by the European Union. The trust is controlled by the MSI Group. The market value of the investments in Toro Prism Trust at December 2019 is £824.8 million (2018: £1,147.6 million), and accrued distribution receivable from the Trust amounts to £8.4 million (2018: £7.4 million).

16. Events after the reporting period

MSI Group Restructuring

On 1 January 2020, MS Amlin Limited (formerly MS Amlin plc) distributed its shareholdings in the managing agent and MS Amlin Corporate Member Limited to MSI. This followed from the announcement of a restructuring of the regional, intermediate holding companies within its group made by MSI on 19 November 2019.