

Accounts disclaimer

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TOKIO MARINE
KILN

Tokio Marine Combined Syndicate 510

Report and Accounts
For the year ended 31 December 2020

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Directors, Active Underwriter and administration

Managing agent

Tokio Marine Kiln Syndicates Limited (TMKS) is the managing agent of Tokio Marine Combined Syndicate 510 (Syndicate 510), Tokio Marine Kiln Syndicate 1880 (Syndicate 1880), Tokio Marine Kiln Reinsurance Syndicate 557 (Syndicate 557) and Tokio Marine Kiln Life Syndicate 308 (Syndicate 308). TMKS is a wholly-owned subsidiary of Tokio Marine Kiln Group Limited (TMKGL). The Company's ultimate parent is Tokio Marine Holdings, Inc., Japan (Tokio Marine).

TMKS is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and Prudential Regulation Authority.

Directors

S Batori (appointed 1 January 2021)
V M Gordon-Walker (appointed 1 August 2020)
R Harris (Non-executive)
N I Hutton-Penman (appointed 27 March 2020)
B T Irick (Chief Executive Officer)
C Kojima (Non-executive) (resigned 31 December 2020)
A McNamara
C J G Moulder (Non-executive)
R Patel
H Rohlf (Non-executive)
A M W Shaw (appointed 18 September 2020)
V Syal
D A Torrance (Chair from 1 January 2020)
C J B Williams (Non-executive)

Company Secretary

F J Molloy (resigned 30 October 2020)
A Gordon (appointed 1 November 2020)

Active Underwriter

M A Mortlock

Registered office

20 Fenchurch Street
London EC3M 3BY

Registered numbers

Company number	00729671
FCA reference number	204909
Lloyd's agent number	1041K

Bankers

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

Investment managers

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

New England Asset Management Limited
The Oval-Block 3, Ballsbridge, D04 T8F2,
Dublin 4, Ireland

Alcentra NY, LLC
200 Park Avenue, 7th Floor
New York, NY 10166
United States of America

Statutory auditors

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

Report of the Directors of the managing agent

The directors of the managing agent present their report and accounts for the year ended 31 December 2020 under UK Generally Accepted Accounting Practice (GAAP). This report covers Syndicate 510, managed by Tokio Marine Kiln Syndicates Limited.

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

Separate underwriting year accounts for the 2018 year of account are also included in this report.

Results

The result for the 2020 calendar year is a loss of £67.8 million (2019: profit of £133.6 million). The syndicate's key financial performance indicators during the year were as follows:

	2020 £m	2019 £m	Change %
Gross written premium	1,472.4	1,450.0	1.5
Net earned premium	926.4	992.8	(6.7)
Result for the financial year	(67.8)	133.6	(150.7)
Investment return	36.3	37.8	(4.0)
Claims ratio ⁽¹⁾	71.5%	48.4%	23.1
Combined ratio ⁽²⁾	113.6%	89.8%	23.8

⁽¹⁾Claims ratio Total of net incurred claims as a percentage of net earned premium

⁽²⁾Combined ratio Total of net incurred claims, net acquisition costs and operating expenses as a percentage of net earned premium

Principal activity

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

Review of the business

The syndicate comprises six underwriting divisions: Property & Casualty; Marine & Special Risks; Accident, Health & Life; Reinsurance; Enterprise Risk; and Aviation and is a recognised market leader in each of these business areas. Each division has a high level of underwriting authority, which, coupled with a robust peer-review process, results in quick, sound decision-making for brokers and customers.

The syndicate loss of £67.8 million (2019: profit of £133.6 million) is driven by a combined ratio of 113.6% (2019: 89.8%) partially offset by investment income of £36.3 million (2019: £37.8 million). The net claims ratio of 71.5% compares adversely to the prior year ratio of 48.4% as the Syndicate has significant exposure to losses from COVID-19, which contributed £194.1 million or 21.0% to the overall net loss ratio. The Syndicate has maintained its prudent approach to reserving with initial reserves being set to include a margin that is expected to release over time as uncertainty reduces.

Investment income for Syndicate 510 was £36.3 million (2019: £37.8 million) equating to a return of 3.5% (2019: 3.8%).

	Gross Written Premium		Underwriting Result	
Divisional Performance	2020 £m	2019 £m	2020 £m	2019 £m
Property & Casualty	925.7	842.3	(11.9)	47.5
Marine & Special Risks	140.4	165.7	6.8	27.8
Accident, Health & Life	96.3	116.0	(95.4)	(1.8)
Reinsurance	109.7	102.6	(24.0)	11.6
Enterprise Risk	105.3	156.8	(10.4)	0.2
Aviation	95.0	66.6	9.1	12.1
	1,472.4	1,450.0	(125.8)	97.4

Property & Casualty

The Property & Casualty division specialises in insurance for large and mid-sized corporate properties worldwide. The team also provides liability coverage for a range of global businesses in case their processes, activities or products cause unintended damage or injury to third parties.

The division generated gross written premium of £925.7 million (2019: £842.3 million) and an underwriting loss of £11.9 million (2019: profit of £47.5 million). Premium growth was primarily focussed in US Property business which benefitted from both a positive rating environment and the team's success in targeting profitable growth opportunities.

The underwriting loss was driven by the impact of COVID-19 with estimated net incurred losses of £61.3 million, predominantly triggered from business interruption and event cancellation exposures.

Although 2020 was impacted by several notable catastrophe events, the division's losses from Hurricanes Laura, Sally, Zeta and Delta, the California Wildfires and the Derecho windstorms were broadly within expectations. Favourable back year reserve releases, particularly on the Casualty account, combined with benign experience on the Motor book more than offset adverse claims development from the Engineering class.

Marine & Special Risks

The Marine and Special Risks division provides bespoke insurance and reinsurance solutions for a broad spectrum of risks. This includes an innovative approach to coverage for contract frustration and credit risks including coverage for loss of profits, liquidated damages and contractual penalties.

The division reported gross written premium of £140.4 million (2019: £165.7 million) and an underwriting profit of £6.8 million (2019: profit of £27.8 million). The Marine Energy account experienced a challenging market as the drop in oil price caused by COVID-19 resulted in a reduction in drilling activity, while remediation or re-underwriting of the Cargo and Offshore Energy books led to a reduction in premium compared to the prior period. This was partially offset by premium growth in the Fine Art class, which benefitted from favourable market conditions and contract extensions on the 2019 year of account.

The underwriting profit was driven by benign loss experience across the Marine Excess of Loss and Energy classes and back year reserve releases. This more than offset the £25.6 million of estimated net incurred losses from COVID-19, predominantly arising from exposure to business interruption and trade disruption risks in the Consequential loss and Political risks class.

Accident, Health & Life

The Accident, Health & Life division provides group personal accident and sickness programmes as well as cover for high-risk groups and people in hazardous occupations. The team also specialise in Event Cancellation, Contingency and Equine insurance, providing cancellation cover for global events as well as specialist protection for sports and leisure horses worldwide.

The division reported gross written premium of £96.3 million (2019: £116.0 million) and an underwriting loss of £95.4 million (2019: loss of £1.8 million) in the year. The reduction in premium is driven by disciplined underwriting which led to the non-renewal of underperforming accounts and premium reductions due to the impact of COVID-19 on economic activity and worldwide travel.

The £95.4 million underwriting loss was driven by £90.6 million of estimated net incurred losses from COVID-19, primarily on the Contingency book, where the division had significant exposure to event cancellation risks predominantly written to the 2019 year of account. This was partially offset by an improvement in the performance of the Product recall account compared to prior year and a positive underwriting contribution from the excess of loss personal accident book.

Reinsurance

The division specialises in writing catastrophe, per risk, aggregate excess of loss, pro-rata and retrocessional reinsurance for a wide spectrum of clients throughout the world.

The division produced gross written premium of £109.7 million (2019: £102.6 million) and an underwriting loss of £24.0 million (2019: profit of £11.6 million). Written premium increases were driven by rate increases on US catastrophe excess of loss business and reinstatement premiums from COVID-19 losses on the 2019 year of account, this was partially offset by the non-renewal of contracts in risk excess and US catastrophe excess of loss classes on the 2020 year of account.

The underwriting loss was driven by weather related catastrophe loss events including the Derecho Windstorms and Hurricanes Laura, Sally, Zeta and Delta. The division also suffered from £11.4 million of net losses from COVID-19, predominantly on the US catastrophe excess of loss book.

Enterprise Risk

The Syndicate's Enterprise Risk division is focussed on developing innovative solutions to address emerging threats. Our expert team has grown to provide specialist solutions in reputational harm, cyber, and intellectual property. The division reported gross written premium of £105.3 million (2019: £156.8 million) and an underwriting loss of £10.4 million (2019: profit of £0.2 million).

Gross written premium decreased by just under a third from prior year, driven by tough market conditions and the impact of COVID-19. Re-underwriting has taken place across poorer performing parts of the portfolio, declining inadequately rated business where rates have not kept pace with the severity and frequency of claims. The rating environment began to harden in certain lines during the latter stages of the year and is expected to continue into 2021.

The underwriting loss was driven by adverse attritional claims experience in the delegated and miscellaneous cyber classes, which were impacted by several ransomware attacks and COVID-19 losses of £5.1 million respectively. The losses from these classes were partially offset by prior year reserve releases on the open market cyber account. From 2021, the team has redistributed capacity to open market cyber and away from primary business to excess layers, which despite lower absolute premium levels is more adequately rated and expected to run at a lower loss ratio.

Aviation

In addition to hull and aviation liability, the team provides coverage to component manufacturers, service operations, and third-party liability insurance for airports.

The division reported gross written premium of £95.0 million (2019: £66.6 million) and an underwriting profit of £9.1 million (2019: profit of £12.1 million). Premium growth in 2020 was driven by a strong rating environment which is expected to continue into 2021 despite considerable uncertainties surrounding COVID-19.

The Aviation division suffered from several large losses during the year, predominantly on the Hull War and General aviation accounts which adversely impacted an otherwise strong performance by the division. The airlines and aviation excess liability accounts generated a positive underwriting contribution this year following benign loss experience resulting from reduced aviation activity caused by COVID-19.

2018 underwriting year of account

The Syndicate made a 2018 closing year profit of £8.4 million on allocated capacity of £1,136.0 million (return on capacity 0.7%) after taking account of operating expenses, foreign exchange, Lloyd's expenses and investment income.

The 2018 underwriting year was impacted by a succession of weather-related catastrophic events in 2018 which included Hurricanes Michael, Hurricane Florence and the California Wildfires. In addition, the year suffered from COVID-19 losses through its exposures to event cancellation and trade interruption risks. These were partially offset by relatively benign claims experience across the Casualty and Enterprise Risk classes and favourable back year reserve releases across the Property and Marine divisions during 2020.

2021 Outlook

Property classes, open market in particular, have seen a material positive shift in rates during 2019 and 2020 which has continued into 2021. Aviation and International Liability markets have also seen material and much needed improvements in 2020 and are expected to continue in 2021. Property reinsurance classes, whilst lagging behind the primary insurance market, have also started to improve in 2020, albeit at a slower pace and are expected to improve with double digit risk adjusted rate change forecast into 2021. As a result of the improved market conditions the syndicate pre-empted its capacity by 15% for the 2021 year of account. This was to ensure that the syndicate will have headroom to be able to take advantage of future growth opportunities should the rating environment continue to improve in excess of the planned levels during 2021.

Over the past few years remedial action has been taken across multiple areas identified in our annual strategic review of the syndicate classes as part of our on-going portfolio management and optimisation process. Whilst remedial and cyclic management actions continue in 2020 and into 2021, the growth opportunities now exceed the off-setting reductions and overall, the syndicate is forecasting profitable growth into 2021.

The syndicate plan for the 2021 year of account is prepared on a split stamp basis, combining the existing syndicate business with that of Syndicate 1880 on a fixed 80:20 split. This proposed split results in further diversification, better balance and opportunities for profitable future growth as well as reducing the operational complexities in managing underwriting across the syndicates.

Operational activities

The COVID-19 pandemic is impacting the operational activities of the Syndicate. However, the directors consider the negative implications on operations to be low. Since March 2020 the vast majority of our staff have worked from home with all working remotely at the date of these accounts. Currently we do not expect significant numbers to return to our offices before at least mid 2021. This follows a successful stress test of our business continuity practices during March 2020, which has shown that the Syndicate can continue to operate remotely.

Principal risks & uncertainties

Our business model remains consistent: we are specialist underwriters, providing a wide variety of products tailored to our clients' changing risk profiles. This is supported by a comprehensive, enterprise wide framework for the management of risk across the whole of Tokio Marine Kiln. We focus largely on specialist lines of insurance and reinsurance business where we know that a loss has occurred relatively quickly, and so are able to make more immediate reliable estimates regarding the extent of the losses we might expect. We are substantially exposed to catastrophe related business and have detailed knowledge of the risks we underwrite.

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

Capital management

Capital framework at Lloyd's

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

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

Although, as described below, Lloyd's capital setting processes use a capital requirement set at syndicate level as a starting point, the requirement to meet Lloyd's capital requirements apply at member level only, not at a syndicate level. Accordingly, the capital requirement at syndicate level is not disclosed in these report and accounts.

Lloyd's capital setting process

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

A syndicate may be supported by one or more underwriting members of Lloyd's. Each member is liable for its own share of underwriting liabilities on the syndicate(s) on which it is participating but not other members' shares. Accordingly, the capital requirements that Lloyd's set for each member operate on a similar basis. Each members' total capital requirement is therefore determined by the share of each syndicate's SCR 'to ultimate' on which they participate. Where a member participates on more than one syndicate, a credit for diversification is provided to reflect the spread of risk, but consistent with determining an SCR which reflects the capital requirement to cover a 1 in 200 loss 'to ultimate' for that member. Over and above this, Lloyd's applies a capital uplift to the members' capital requirement, known as the economic capital assessment (ECA). The purpose of this uplift, which is a Lloyd's rather than Solvency II requirement, is to meet Lloyd's financial strength, licence and ratings objectives.

Provision of capital by members

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

Accordingly, all of the assets less liabilities of the syndicate, as represented in the members' balances reported on the respective balance sheets, represent resources available to meet members' and Lloyd's capital requirements. The Lloyd's market-wide capital uplift applied for 2020 to derive the ECA is 35% of the members' SCR 'to ultimate'.

Capital allocation

We have an approved internal model which is used to calculate capital requirements, allocate capital to business lines and risk categories and assess the value of different business and reinsurance strategies. The calculations are based upon

sophisticated mathematical models that reflect the key risks in the business, allowing for the probability of occurrence, the potential impact should losses occur and the interactions between the different risk types.

The results of the modelling confirm that the majority of capital is required to support insurance risk.

Risk management and risk appetite

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

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

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

Insurance risk

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

Insurance risk is sub-divided into several categories which include underwriting risk, reinsurance risk and reserving risk.

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

Underwriting risk

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

Underwriting risk is managed by agreeing the syndicate's appetite annually through the risk appetite framework and the business plan, which sets out targets for volumes, pricing, line sizes and retention by class of business. Volume and price performance is monitored against the syndicate business plan monthly, and risk appetite quarterly. Catastrophe modelling software is used to model maximum probable losses from catastrophe-exposed business and as part of the realistic disaster scenario (RDS) process. We have adopted a cyber aggregate monitoring tool to manage the growing exposures in this area.

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

A significant proportion of the syndicate's business is written through delegated authorities. A dedicated delegated authorities team provides operational and regulatory oversight of our coverholders, and third-party administrators carrying out annual due diligence, an ongoing schedule of audits and management of regulatory requirements.

Reinsurance risk

This is the risk that reinsurance purchased to protect the gross account does not respond as intended due to, inter alia: mismatch with gross losses; poorly worded contracts; reinsurer counterparty risk; or exhaustion of reinsurance limits. The risk is heightened if there is a lack of reinsurance or retrocession availability in the market.

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

Reserving risk

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

Claims provisions represent estimates, based on both the underwriters' and claim managers' informed knowledge and judgement and on the Internal Reserving Actuary's statistical projections, of the expectation of the ultimate settlement

and administration costs of claims incurred. A variety of estimation techniques are used, generally based upon statistical analyses of historical loss development patterns, to assist in the establishment of appropriate claims reserves.

In addition, the estimates are subject to independent review by external actuaries, who sign an annual Statement of Actuarial Opinion on the sufficiency of the reserves for the syndicate. Our policy is to reserve on a consistent basis with a reasonable margin for prudence. Claims run-off tables are used to monitor the history of reserve adequacy, and these show a trend of predominantly positive run-off since they were first prepared in 2001.

Credit risk

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

We are exposed to three types of credit risk: reinsurer credit risk; broker/coverholder credit risk; and investment credit risk. Credit exposure and aggregate exposure to reinsurers are managed by the outwards reinsurance team. It assesses all new reinsurers before business is placed with them, and it monitors the credit ratings of all reinsurers used. The performance of premium debtors, from brokers and coverholders, is monitored regularly. The Investment Committee regularly tracks and reviews our investment portfolio, which is outsourced to three investment managers.

Market risk

This is the risk that arises from fluctuations in values of, or income from, assets, interest rates or exchange rates. Investments are held as a result of underwriting activities either in premium trust funds or as capital support. The investment policy is set to protect the capital, and not to manage it as a separate profit centre. Funds managed by our investment managers are subject to set guidelines, and the on-going investment strategy and investment objectives that are agreed by the Investment Committee. These include the requirement to comply with the prudent person principle as outlined in the Solvency II Directive text. Additionally, we meet regularly with our fund managers to review performance.

We regularly review our balance of assets and liabilities. The syndicate maintains a diversified investment portfolio to restrict the concentration of assets.

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

Liquidity risk

This is the risk of the syndicates being unable to meet liabilities in a timely manner due to the lack of liquid resources. To mitigate liquidity risk, the treasury department reviews syndicate cash flow projections quarterly, and also stress tests them against RDSs. The syndicate also has the ability to make cash calls on members in order to manage liquidity.

Operational risk

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

We seek to manage this risk by the recruitment of high calibre staff and providing them with ongoing, high quality training. Operational risk forms a significant part of the syndicate's risk register. Risks are reviewed on a regular basis with departmental heads responsible for identifying, assessing and controlling operational risks effectively, as well as attesting to the effectiveness of these controls on a regular basis. This forms the Risk, Control and Self-Assessment (RCSA) process at Tokio Marine Kiln, supported by the Risk Management team who independently assess key risks and controls on a regular basis.

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

Tokio Marine Kiln Syndicates Limited is aware of its fiduciary responsibilities to capital providers across each of its four syndicates and is careful to ensure equity between them. As we operate with an integrated underwriting function, we manage potential conflicts of interest between capital providers using Tokio Marine Kiln's Underwriting Acceptance Protocols. These protocols, which have been shared with the members' agents, govern business not constrained by licence or customer preference. Any proposed exceptions to the protocols must be approved by Tokio Marine Kiln's Conflicts Committee before a risk is bound.

Regulatory risk

This is the risk of loss owing to a breach of regulatory requirements or failure to respond to regulatory change.

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

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

Conduct risk

This is an important element of regulatory risk and is the risk of financial and/or service detriment which adversely affects our customers due to failings in the customer value chain.

Our conduct objective is to build, maintain and enjoy long-term relationships with our customers whether they be held directly or indirectly via a third party. This culture of partnership is fundamental to our dealings with our customers, and comes regardless of the complexity of the risk, the sophistication of the buyer, or the length of the supply chain to the end customer.

The conduct objective is owned by the Board and cascaded throughout the organisation. It is central in achieving delivery of the six consumer outcomes (as set out by the FCA), which are at the heart of our business.

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

The underwriters, with the support of all teams across Tokio Marine Kiln, take day-to-day ownership of conduct risk as they are the ones empowered to make decisions which commit us to relationships with our customers and business partners. Conduct risk and our treatment of customers is managed and monitored by the PUG, a sub-committee of the Risk, Capital and Compliance Committee.

Reputational risk

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

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

Strategic risk

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

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

Emerging risk

We define an emerging risk as an issue that is perceived to be potentially significant, but which may not be fully understood or allowed for in insurance terms and conditions, pricing, reserving or capital setting, and may relate to issues which are changing rapidly or are uncertain.

We are committed to the continual research and identification of emerging risks and actively undertake research independently, and via market working groups. Emerging risk analysis is included in the Tokio Marine Kiln ORSA process with annual and where relevant, quarterly updates. Through the effective management of emerging risks, which include

climate change, we are able to identify external trends and threats, and improve risk selection and knowledge of future risk exposures. Emerging risks may present both threats and opportunities to the business and, as we have done in the past, we will readily capitalise on identified opportunities in this area.

Climate risks are complex, deep and broad, affecting the entirety of our business. Although the full manifestation of these risks will take many years, we are continuing to embed the consideration of climate risk within our Enterprise Risk Management Framework and ORSA process. In addition, we have established an Environmental, Social and Governance (ESG) Committee of the Board which elevates discussion of these matters and supports required actions.

Climate risk exposure is further managed by the Lloyd's capital setting process. The majority of TMK's business is priced annually, which allows for the potential increase in risk exposures to be captured in pricing models. We adhere to Tokio Marine Group's underwriting guidelines in respect of thermal coal production. Although we currently have only small levels of exposure to Thermal Coal-fired Power Plants, Thermal Coal Mines, Oil Sands and Arctic Energy Exploration, we are preparing for adherence to Lloyd's forthcoming underwriting and investment restrictions on these risks.

Political risk

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

Directors

The Directors of the managing agent who served during the year ended 31 December 2020, as well as any subsequent changes, are listed under the section 'Directors, Active Underwriter and administration'.

Percentages of capacity per year of account

Company	2017	2018	2019	2020	2021
	%	%	%	%	%
Tokio Marine Underwriting Limited	56	56	56	56	56

Post balance sheet events

These are discussed in note 22 of the annual accounts.

Disclosure of information to the auditors

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

Reappointment of auditors

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

Syndicate annual general meeting

In accordance with the Syndicate Meetings (Amendment No. 1) Byelaw (No. 18 of 2000) the managing agent does not propose holding a syndicate annual meeting this year; objections to this proposal or the intention to reappoint the auditors for a further 12 months can be made by syndicate members in writing to the Company Secretary within 21 days of this notice.

Approved by the Board of directors

B T Irick

Chief Executive Officer
Tokio Marine Kiln Syndicates Limited
4 March 2021

Statement of managing agent's responsibilities

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

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ('2008 Regulations') requires the managing agent to prepare syndicate annual accounts for each syndicate at 31 December each year, in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The annual accounts are required by law to give a true and fair view of the state of affairs of the syndicate as at that date and of its profit or loss for that year.

In preparing the syndicates' annual accounts, the managing agent is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable United Kingdom accounting standards have been followed, subject to any material departures disclosed and explained in the annual accounts; and
- prepare the annual accounts on the going concern basis for each syndicate unless it is intended for the syndicate to cease operations, or it has no realistic alternative but to do so.

The managing agent is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of each syndicate and enable it to ensure that the syndicate annual accounts comply with the 2008 Regulations. It is also responsible for safeguarding the assets of each syndicate and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The managing agent is responsible for the maintenance and integrity of the corporate and financial information included on its website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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

Independent auditors' report to the members of Syndicate 510

Report on the audit of the syndicate annual accounts

Opinion

In our opinion, 510's syndicate annual accounts:

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2020 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

We have audited the syndicate annual accounts included within the Report and Accounts (the "Annual Report"), which comprise: the Balance sheet: assets and the Balance sheet: liabilities as at 31 December 2020; the Profit and loss account: technical account- general business, the Profit and loss account: non-technical account, the Statement of cash flows; the Statement of changes in members' balances for the year then ended and the notes to the syndicate annual accounts, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)"), and The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and other applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the syndicate annual accounts section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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

Conclusions relating to going concern

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the syndicate's ability to continue as a going concern for a period of at least twelve months from when the syndicate annual accounts are authorised for issue.

In auditing the syndicate annual accounts, we have concluded that the Managing Agent's use of the going concern basis of accounting in the preparation of the syndicate annual accounts is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the syndicate's ability to continue as a going concern.

Our responsibilities and the responsibilities of the Managing Agent with respect to going concern are described in the relevant sections of this report.

Reporting on other information

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

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

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

Based on our work undertaken in the course of the audit, The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 requires us also to report certain opinions and matters as described below.

Managing Agent's Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Managing Agent's Report for the year ended 31 December 2020 is consistent with the syndicate annual accounts and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the syndicate annual accounts and the audit

Responsibilities of the Managing Agent for the syndicate annual accounts

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

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

Auditors' responsibilities for the audit of the syndicate annual accounts

Our objectives are to obtain reasonable assurance about whether the syndicate annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these syndicate annual accounts.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the syndicate and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK and European regulatory principles, such as those governed by the Prudential Regulation Authority and the Financial Conduct Authority, and those regulations set by the Council of Lloyd's, and we considered the extent to which non-compliance might have a material effect on the syndicate annual accounts. We also considered those laws and regulations that have a direct impact on the syndicate annual accounts such as The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. We evaluated management's incentives and opportunities for fraudulent manipulation of the syndicate annual accounts (including the risk of override of controls), and determined that the principal risks were related to the posting of inappropriate journals and management bias in accounting estimates. Audit procedures performed included:

- Discussions with management, internal audit and the risk and compliance functions, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud.
- Challenging assumptions and judgements made by management in their significant accounting estimates, in particular in relation to valuation of the IBNR component of claims outstanding and estimated premium income.
- Identifying and testing journal entries, in particular any journals that appear to be posted outside the normal patterns and parameters, any journal entries posted with unusual account combinations and journals posted by senior management.

- Reviewing relevant meeting minutes including those of the Conflicts Committee, Risk, Capital & Compliance Committee and Audit Committee and correspondence with regulatory authorities, including Lloyd's of London and the Prudential Regulatory Authority.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the syndicate annual accounts. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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

Use of this report

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

Other required reporting

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

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Managing Agent in respect of the syndicate; or
- certain disclosures of Managing Agent remuneration specified by law are not made; or
- the syndicate annual accounts are not in agreement with the accounting records.

We have no exceptions to report arising from this responsibility.

Matthew Nichols (Senior statutory auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
4 March 2021

Profit and loss: technical account - general business for the year ended 31 December 2020

	Note	2020 £'000	2019 £'000
Earned premiums, net of reinsurance			
Gross premiums written	3	1,472,360	1,450,009
Outward reinsurance premiums		(547,531)	(481,696)
Net premiums written		924,829	968,313
Change in the gross provision for unearned premiums		(27,016)	(12,376)
Change in the provision for unearned premiums, reinsurers' share		28,548	36,854
Earned premiums, net of reinsurance		926,361	992,791
Allocated investment return transferred from the non-technical account		36,336	37,849
Total technical income		962,697	1,030,640
Claims incurred, net of reinsurance			
Claims paid:			
- Gross amount		(778,071)	(752,969)
- Reinsurers' share		223,330	223,460
Net claims paid		(554,741)	(529,509)
Change in the provision for claims:			
- Gross amount		(278,882)	73,427
- Reinsurers' share		171,299	(24,688)
Change in the net provision for claims		(107,583)	48,739
Claims incurred, net of reinsurance		(662,324)	(480,770)
Members' standard personal expenses		(21,050)	(17,341)
Net operating expenses	4,5,6	(368,804)	(393,538)
Total technical charges		(1,052,178)	(891,649)
Balance on the technical account for general business		(89,481)	138,991

All operations are continuing.

The notes to the annual accounts form part of these annual accounts.

Profit and loss: non-technical account for the year ended 31 December 2020

	Note	2020 £'000	2019 £'000
Balance on the technical account for general business		(89,481)	138,991
Investment income	7	23,267	27,344
Unrealised gains on investments		15,187	12,857
Investment expenses and charges	7	(1,161)	(1,266)
Unrealised losses on investments		(957)	(1,086)
Allocated investment return transferred to the general business technical account		(36,336)	(37,849)
Other income		2,032	-
Non-technical foreign exchange gain /(loss)		19,625	(5,404)
(Loss)/profit for the financial year		(67,824)	133,587

There is no other comprehensive income. Accordingly, a separate statement of other comprehensive income has not been provided.

The notes to the annual accounts form part of these annual accounts.

Balance sheet: assets as at 31 December 2020

	Note	2020 £'000	2019 £'000
Investments			
Other financial investments		933,653	874,701
Deposits with ceding undertakings		553	572
		934,206	875,273
Reinsurers' share of technical provisions			
Provision for unearned premiums	9	211,885	190,289
Claims outstanding	9,10	554,371	402,816
		766,256	593,105
Debtors			
Debtors arising out of direct insurance operations	11	458,344	459,696
Debtors arising out of reinsurance operations	12	321,060	315,228
Other debtors	13	7,322	20,122
		786,726	795,046
Other assets			
Cash at bank and in hand		9,142	7,451
Overseas deposits		175,266	179,074
		184,408	186,525
Prepayments and accrued income			
Deferred acquisition costs	14	195,079	197,131
Other prepayments and accrued income		604	397
		195,683	197,528
Total assets		2,867,279	2,647,477

The notes to the annual accounts form part of these annual accounts.

Balance sheet: liabilities as at 31 December 2020

	Note	2020 £'000	2019 £'000
Capital and reserves			
Members' balances		(201,291)	(159,083)
Technical provisions			
Provision for unearned premiums	9	660,486	651,508
Claims outstanding	9,10	1,775,224	1,548,182
		2,435,710	2,199,690
Deposits received from reinsurers			
		11,296	44,773
Creditors			
Creditors arising out of direct insurance operations	15	86,816	90,386
Creditors arising out of reinsurance operations	16	385,548	383,143
Other creditors	17	78,464	23,852
		550,828	497,381
Accruals and deferred income			
Reinsurers' share of deferred acquisition costs	14	68,334	62,872
Other accruals and deferred income		2,402	1,844
		70,736	64,716
Total liabilities			
		2,867,279	2,647,477

The annual accounts, which comprise profit and loss account, the balance sheet, the statement of changes in members' balances, the statement of cash flow and the notes to the annual accounts, were approved by the Board of Tokio Marine Kiln Syndicates Limited on 2 March 2021 and were signed on its behalf by

R Patel

Chief Financial Officer
Tokio Marine Kiln Syndicates Limited
4 March 2021

The notes to the annual accounts form part of these annual accounts.

Statement of changes in members' balances for the year ended 31 December 2020

	2020 £'000	2019 £'000
Members' balances brought forward at 1 January	(159,083)	(246,995)
(Loss)/profit for the financial year	(67,824)	133,587
Collection from/(Payments of profit to) members' personal reserve funds	28,506	(42,995)
Members' agents fee advances	(2,890)	(2,680)
Members' balances carried forward at 31 December	(201,291)	(159,083)

Members participate on syndicates by reference to years of account and their ultimate result, assets and liabilities are assessed with reference to policies incepting in that year of account in respect of their membership of a particular year.

Statement of cash flows for the year ended 31 December 2020

	2020 £'000	2019 (restated)* £'000
Cash flows from operating activities:		
Operating (loss)/profit on ordinary activities	(67,824)	133,587
Increase/(decrease) in gross technical provisions	236,020	(112,066)
Increase in reinsurers' share of technical provisions	(173,151)	(22,948)
Decrease/(increase) in debtors	10,165	(76,254)
Increase in creditors	59,467	151,863
Movement in other assets/liabilities	3,590	(25,504)
Unrealised foreign currency (gains)/losses	(5,584)	11,955
Investment return	(36,336)	(37,849)
Net cash inflow from operating activities	26,347	22,784
Cash flows from investing activities:		
Purchase of equity and debt instruments	(317,950)	(429,727)
Sale of equity and debt instruments	281,101	407,544
Settlement of derivatives trades	(24)	266
Investment income received	22,841	27,192
Other	(36,068)	8,236
Net cash (outflow)/inflow from investing activities	(50,100)	13,512
Cash flows from financing activities:		
Transfer from/(to) members in respect of underwriting participation	28,506	(42,995)
Members' agents fees paid on behalf of members	(2,890)	(2,680)
Net cash inflow/(outflow) from financing activities	25,616	(45,675)
Net increase/(decrease) in cash and cash equivalents	1,863	(9,380)
Cash and cash equivalents at beginning of year	7,451	17,026
Foreign exchange losses on cash and cash equivalents	(172)	(195)
Cash and cash equivalents at end of year	9,142	7,451

* The cash flow statement has been restated to remove overseas deposits from the cash flow statement. They are not deemed to be cash and cash equivalents and have been presented as other assets on the balance sheet.

The notes to the annual accounts form part of these annual accounts.

Notes to the annual accounts

1. Accounting policies

1.1 Statement of compliance

These annual accounts have been prepared in accordance with Regulation 5 of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and Accounting Standards in the United Kingdom, including Financial Reporting Standard 102, 'The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland' (FRS 102) and Financial Reporting Standard 103, 'Insurance Contracts' (FRS 103). The general result is determined on an annual basis of accounting.

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

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

1.2 New standards and amendments

The Syndicate has applied FRS 102 and FRS 103, both as issued in March 2018, which reflects the amendments made as part of the Triennial Review 2017. There are no amendments to UK accounting standards impacting the year ended 31 December 2020 annual accounts

1.3 Funds at Lloyd's

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

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

1.4 Going concern

Having assessed the principal risks, the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the annual accounts.

1.5 Summary of accounting policies

The significant accounting policies adopted in the preparation of the annual accounts are set out below. They have been applied consistently to all periods presented in these annual accounts.

a. Product classification

(Re)insurance contracts are defined as those containing significant insurance risk at the inception of the contract, or those where at the inception of the contract there is a scenario with commercial substance where the level of insurance risk may be significant. The significance of insurance risk is dependent on both the probability of an insured event and the magnitude of its potential effect.

b. Premiums written

Inwards premiums written comprise premiums on contracts incepting during the financial year as well as adjustments made in the year to premiums on contracts incepting in prior accounting periods. Premiums in respect of insurance contracts underwritten under facilities such as binding authorities, lineslips or consortia arrangements are estimated based on information provided by the broker, past underwriting experience and prevailing market conditions. The estimates are updated on a regular basis. It is assumed that the majority of risks incept even across the period of the facility; however bespoke writing patterns are used for a small number of facilities. Therefore, only the proportion of risks incepted at the year-end date are reported as written. Premiums are shown gross of brokerage payable and exclude taxes and duties levied on them. Estimates are made for pipeline premiums on a risk by risk basis, representing the difference between the written and signed premium, which is held on the balance sheet as an asset.

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

c. Earned premiums

Inwards and outwards earned premium represents the amount of written premium deemed to have been exposed to loss according to defined earnings patterns. The earning patterns are based primarily on time apportionment, with an adjustment for the risk profile of certain classes of business, particularly those exposed to seasonal weather-related events. The provision for unearned premium comprises the proportion of gross premiums written which is estimated to be earned after the balance sheet date.

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

d. Claims paid and incurred

Paid claims represent all claims paid during the year and include claims handling expenses.

Claims incurred comprise paid claims and changes in the provisions for outstanding claims, including provisions for claims incurred but not reported (IBNR) and related expenses, together with any adjustments to claims from previous years.

e. Claims provisions and related recoveries

Gross claims incurred comprise the estimated cost of all claims occurring during the year, whether reported or not, including related direct and indirect claims handling costs and adjustments to claims outstanding from previous years.

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

f. Provision for unexpired risks

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

All reasonable steps are taken to ensure that the appropriate information regarding claims exposures is obtained. The calculation is based upon statistical analyses of historical experience, which assumes that the development pattern of premiums and claims will be similar to past experience. However, given the uncertainty in establishing a provision for unexpired risks, it is likely that the final outcome will prove to be different from the original liability established.

g. Net operating expenses and personal expenses

Net operating expenses comprise the cost of acquiring business including commission and profit commission as well as the staff costs and other expenses attributable to underwriting operations.

Personal expenses comprise managing agent's fee, Lloyd's central fund contributions and Lloyd's subscriptions.

Net operating expenses and personal expenses are recognised on the accruals basis and represent the expenses incurred on underwriting operations and also the reinsurance commission income.

h. Finance costs

Finance costs comprise interest paid and bank charges together with facility fees on letters of credit and are recorded in the period in which they are incurred.

i. Acquisition costs

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

Deferred acquisition costs, representing the proportion of commission and other acquisition costs that relate to unearned premium on policies in force at the year-end, are charged over the period in which related premiums are earned. Deferred acquisition costs are reviewed by category of business at the end of each reporting period and are written off where they are no longer considered to be recoverable.

j. Foreign currencies

Functional and presentation currency

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

Transactions and balances

Foreign currency transactions are recorded in the functional currency using the exchange rates prevailing at the dates of the transactions or an appropriate average rate of exchange. At each period end foreign currency monetary items are translated using the closing rate. For this purpose, all assets and liabilities arising from insurance contracts (including unearned premiums, deferred acquisition costs and unexpired risks provisions) are monetary items.

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

Exchange rates used are as follows:

	2020	2019
Average rate		
US dollar	1.28	1.28
Canadian dollar	1.72	1.69
Year-end rate		
US dollar	1.37	1.32
Canadian dollar	1.74	1.72

The distributable result on closing a year of account, usually at 36 months, is calculated using the exchange rates prevailing at the date of closure.

k. Financial investments

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

Information relating to investments is reported to internal management on a fair value basis therefore all financial investments are designated at fair value through profit or loss at acquisition. These are initially recorded at cost, which equates fair value and subsequently carried at fair value through profit or loss.

All regular purchases and sales of financial investments are recognised on the trade date, being the date the Syndicate commits to purchase or sell the asset.

Fair value determinations for financial investments are based on either bid market prices at close of business on the year-end date for listed investments, broker or dealer price quotations, or by reference to current market values of another substantially similar instrument.

A financial asset is derecognised when the contractual right to receive cash flows expires or where they have been transferred and the Syndicate has also substantially transferred all risks and rewards of ownership. A financial liability is derecognised once the obligation under the liability is discharged, cancelled or expires.

Financial assets and liabilities are offset and the net amount reported in the balance sheet only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously.

Equity instruments that are not publicly traded and whose value cannot be measured reliably are subsequently measured at cost less impairment.

l. Derivative financial instruments

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

The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets.

m. Debtors and creditors arising out of direct and reinsurance operations

Debtors and creditors arising out of direct and reinsurance operations are initially recognised at transaction price and are subsequently carried at the recoverable amount. The carrying value is reviewed for impairment whenever events or circumstances indicate that the carrying amount is greater than the recoverable amount, with the impairment adjustment recorded in the profit and loss. Debtors arising out of direct insurance and reinsurance operations are stated net of specific provisions against doubtful debts which are made on the basis of reviews conducted by management.

n. Other debtors and creditors

Any other debtors and creditors are recognised initially at transaction price and subsequently carried at the recoverable amount. The carrying value of other debtors is reviewed for impairment whenever events or circumstances indicate that the carrying amount is greater than the recoverable amount, with the impairment adjustment recorded in the profit and loss account. All other debtors and creditors are due within one year, unless otherwise stated.

o. Cash at bank and in hand

Cash at bank and in hand include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of 24 hours or less. Bank overdrafts, when applicable, are shown within borrowings in current liabilities. These are measured at cost less any allowance for impairment. Cash and cash equivalents consist of cash at bank and in hand only.

p. Overseas deposits

Overseas deposits are lodged as a condition of conducting underwriting business in certain countries. These are measured at cost less any allowance for impairment and classified as other assets.

q. Investment return

Investment return comprises all investment income, realised investment gains and losses and movements in unrealised gains and losses, net of investment management expenses, including interest. Realised gains and losses on investments carried at fair value through profit or loss are calculated as the difference between sale proceeds and the fair value at the previous balance sheet date, or purchase price if acquired during the year. Unrealised gains and losses on investments represent the difference between the fair value at the balance sheet date and the fair value at the previous balance sheet date, or purchase price if acquired during the year.

Investment return on general business is initially recorded in the non-technical account. A transfer is made from the non-technical account to the general business technical account. Investment return has been wholly allocated to the technical account as all investments relate to the technical account.

r. Investment yield

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

s. Taxation

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

The syndicate pays various overseas direct and premium based taxes, the majority of which are allocable to their members in direct proportion to their capacity and which can be claimed by members either as double tax relief or as an expense against tax liabilities.

t. Pension costs

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

TMKS also operates a defined benefit scheme through the R J Kiln & Co. Limited Pension and Assurance Scheme (closed to future benefit accruals from 1 May 2003). This fund is valued at the balance sheet date by the scheme actuary. TMKS allocates a charge to the syndicate during the year which represents the syndicate's yearly share of the obligated funding requirement of the scheme.

u. Profit commission

Profit commission is charged by the managing agent at a rate of 12.5% of profit subject to the operation of a two year deficit clause. The syndicate's profit commission is calculated after the deduction of a 5% divisional profit share, again subject to the operation of a divisional two-year deficit clause. Final settlement to the managing agent is made when the year of account closes; normally at 36 months. Divisional profit share does not become payable until after the appropriate year of account closes; normally at 36 months. Profit commission is estimated on an ultimate basis for each year of account and accrued by the syndicate based on the interim annual accounting results of the year of account under UK GAAP to the extent it is probable (more likely than not) that the syndicate will be required to transfer economic benefits in settlement.

v. Provisions

A provision is recognised when the syndicate has a present legal or constructive obligation, as a result of a past event, that is expected to result in an outflow of resources. A provision is recognised when a reliable estimate of the amount of the obligation can be made.

w. Current and non-current disclosure

For each asset and liability line item that combines amounts expected to be recovered or settled (a) no more than 12 months after the year-end date and (b) more than 12 months after the year-end date, the relevant note discloses the amount expected to be recovered or settled after more than 12 months.

x. Contingencies

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

y. Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously.

2. Use of critical accounting estimates and judgements in applying accounting policies

The preparation of the annual accounts requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Syndicate's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual accounts are those listed below.

Incurring but not reported claims (IBNR)	<p>The estimation of claims IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Syndicate, where more information about the claim event is generally available. In calculating the estimated cost of unpaid claims the Syndicate uses a variety of estimation techniques, generally based upon statistical analyses of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience. Allowance is made, however, for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims including:</p> <ul style="list-style-type: none">• changes in processes which might accelerate or slow down the development and/or recording of paid or incurred claims compared with the statistics from previous periods;• changes in the legal environment;• the effects of inflation;• changes in the mix of business;• the impact of large losses; and• movements in industry benchmarks.
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A component of these estimation techniques is usually the estimation of the cost of notified but not paid claims. In estimating the cost of these, regard is given to the claim circumstance as reported, any information available from loss adjusters and information on the cost of settling claims with similar characteristics in previous periods.

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

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

The directors consider that the provisions for gross claims and related reinsurance recoveries are fairly stated on the basis of the information currently available to them. However, the ultimate liability will vary as a result of subsequent information and events and this may result in significant adjustments to the amounts provided. Adjustments to the amounts of claims provisions established in prior years are reflected in the financial statements for the period in which the adjustments are made. The methods used, and the estimates made, are reviewed regularly.

Provisions are calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts that will be recoverable from reinsurers based upon the gross provisions and having due regard to collectability. An estimate of the future cost of indirect claims handling is calculated as a percentage of the claims reserves held at the balance sheet date.

Property, Enterprise Risk, Reinsurance, Accident and Health

These business areas are predominantly 'short tail', as there is not a significant delay between the occurrence of the claim and the claim being reported, with the exception of the liability risks written in the Property division. For short tail risks, the costs of claims notified to the Syndicate at the year-end date are estimated on a case by case basis to reflect the individual circumstances of each claim. The ultimate expected cost of claims is projected from this data by reference to statistics which show how estimates of claims incurred in previous periods have developed over time to reflect changes in the underlying estimates of the cost of notified claims and late notifications. For liability risks, claims may not become apparent for many years after the event giving rise to the claim has happened, and there will typically be greater variation between initial estimates and final outcomes compared with other classes. Differences between the estimated cost and subsequent re-estimation or settlement of

claims are reflected in the technical account for the year in which these claims are re-estimated or settled.

Marine and Aviation business

These business areas have a mix of hull and cargo risks that are short tail in nature, and liability risks which are longer tail. The methodology uses a predetermined formula whereby greater weight is given to actual claims experience as time passes. The initial estimate of the loss ratio based on the experience of previous years adjusted for factors such as premium rate changes and claims inflation, and on the anticipated market experience, is an important assumption in this estimation technique. The assessment of claims inflation and anticipated market experience is particularly sensitive to the level of court awards and to the development of legal precedent on matters of contract and tort. This class of business is also potentially subject to the emergence of new types of latent claims but no specific allowance is included for this as at the year-end date.

COVID-19

The directors are aware of the heightened estimation uncertainty in reserving for COVID-19 estimated losses, exacerbated by the ongoing nature of the event. Management have a robust reserving approach and carried out detailed analyses to corroborate the held reserves at the year-end date.

Written premium	Written premium is reported according to management estimation of when premium will be written.
Pipeline premium	<p>An estimate of premiums written during the year that have not yet been notified by the financial year-end 'pipeline premiums' is made on a risk by risk basis. The pipeline premium is booked as written and an assessment is made of the related unearned premium provision and an estimate of claims incurred but not reported in respect of the earned element.</p> <p>For delegated authority business the underwriters estimate how much business will attach to a facility based on information provided by the broker, using the underwriters' experience with reference to the trading conditions of the market. This estimate is updated on a regular basis. It is assumed that risks attaching to the master facility incept evenly across the period of the facility and therefore only the proportion of risks which have incepted to the master facility by the year-end date are reported within written premium in these financial statements.</p>
Earned premium	<p>Earned premium is estimated based on assumptions of how each risk is earned according to its method of placement and class of business. Each risk falling within a class of business is earned according to the estimated pattern applying to that class of business, which takes into account the class characteristics including exposure to seasonal weather-related events. This approach is applied consistently year-on-year.</p> <p>The earning of premiums is based primarily on time apportionment, with an adjustment for the risk profile of certain classes of business particularly those exposed to seasonal weather related events.</p>
Provision for unexpired risks	All reasonable steps are taken to ensure that the appropriate information regarding claims exposures is obtained. The calculation is based upon statistical analyses of historical experience, which assumes that the development pattern of premium and claims will be similar to past experience. However, given the uncertainty in establishing a provision for unexpired risks, it is likely that the final outcome will prove to be different from the original liability established.
Reinsurance recoverable	Reinsurance is deemed to be fully recoverable unless there is reason to doubt to its recoverability. In these circumstances specific provisions are made based on the expected proportional recovery and the credit risk profile of the counterparties.
Financial investments	Financial investments are carried in the balance sheet at fair values. Market valuations of funds are obtained from fund administrators. The fair value of financial instruments where no active market exists or where quoted prices are not otherwise available is determined by using valuation techniques.

3. Segmental analysis

An analysis of the result before investment return and profit or loss on exchange is set out below:

	Gross premiums written £'000	Gross premiums earned £'000	Gross claims incurred £'000	Gross operating expenses £'000	Reinsurance balance £'000	Result £'000
2020						
Fire and other damage to property	654,826	642,811	(434,468)	(238,816)	(2,680)	(33,153)
Reinsurance Accepted	336,334	330,163	(248,955)	(122,661)	8,694	(32,759)
Third party liability	245,811	241,301	(185,550)	(89,647)	7,140	(26,756)
Marine, aviation and transport	112,529	110,465	(60,743)	(41,039)	(6,730)	1,953
Credit and suretyship	44,255	43,443	(50,735)	(16,140)	8,097	(15,335)
Accident and health	40,974	40,222	(43,355)	(14,943)	5,639	(12,437)
Motor (Other)	37,567	36,878	(29,572)	(13,701)	1,449	(4,946)
Other	64	61	(3,575)	(24)	1,154	(2,384)
	1,472,360	1,445,344	(1,056,953)	(536,971)	22,763	(125,817)
2019 (restated*)						
Fire and other damage to property	615,848	578,092	(260,928)	(218,210)	(54,719)	44,235
Reinsurance Accepted	254,593	205,410	(80,683)	(58,362)	(51,548)	14,817
Third party liability	292,407	305,881	(181,613)	(130,492)	4,366	(1,858)
Marine, aviation and transport	104,571	128,693	(47,728)	(49,591)	421	31,795
Credit and suretyship	58,989	68,438	(19,670)	(25,183)	(12,280)	11,305
Accident and health	57,851	78,892	(48,408)	(34,113)	(1,109)	(4,738)
Motor (Other)	54,647	59,317	(33,213)	(20,738)	(356)	5,010
Other	11,103	12,910	(7,299)	(4,196)	(839)	576
	1,450,009	1,437,633	(679,542)	(540,885)	(116,064)	101,142

* The segmental note has been restated to present segments in line with paragraph 85 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008.

The total commission payable on direct business was £372,231,000 (2019: £380,095,000).

All business was concluded in the UK.

The geographical analysis of premium by location of the client is below.

	2020 £'000	2019 £'000
United Kingdom	146,803	141,323
European Union	90,714	91,996
United States of America	545,414	545,098
Canada	250,366	206,082
Other	439,063	465,510
	1,472,360	1,450,009

4. Net operating expenses

	2020 £'000	2019 £'000
Acquisition costs	424,589	430,493
Change in deferred acquisition costs	(2,812)	2,094
Administrative expenses	94,144	90,957
Reinsurance commissions and profit participations	(147,117)	(130,006)
	368,804	393,538

Included within administrative expenses is auditors' remuneration:

	2020 £'000	2019 £'000
Fees payable to the syndicate's auditor for the audit of the syndicate annual accounts	145	189
Other services pursuant to legislation	277	361
All other services	203	154
	625	704

The charge incurred for other services pursuant to legislation relates to the audit and review of the syndicate's regulatory returns. The charge incurred for all other services in 2020 relates to the provision of statement of actuarial opinion on the reserves.

Audit fees are billed combined for the TMK Group and the Syndicate and paid by a fellow subsidiary of TMKS. Audit fees are recharged to the Syndicate.

5. Staff costs

The syndicate and its managing agent have no employees. Staff are employed by Tokio Marine Kiln Insurance Services Limited. The following amounts were recharged to the syndicate in respect of salary costs and are included within administrative expenses:

	2020 £'000	2019 £'000
Wages and salaries	34,978	29,090
Social Security Costs and Pension Costs	7,402	6,117
	42,380	35,207

Included in Social Security Costs and Pension Costs are amounts related to the defined benefit pension scheme recharged by the managing agent:

	2020 £'000	2019 £'000
Net charge from managing agent during year	1,138	1,138
Amount funded in year	1,138	1,138

6. Emoluments of the Directors and Active Underwriters

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

	2020 £'000	2019 £'000
Emoluments	914	1,288

Of the above amount, £617,000 (2019: £844,000) was charged to the syndicate as an expense, with the remainder borne by other group entities.

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

	2020 £'000	2019 £'000
Emoluments	543	1,118

The profit commission included within the emoluments is in relation to the 2017 year of account (2019: 2016 YOA), as the allocation to underwriters was only determined following its closure.

7. Investment return

	2020 £'000	2019 £'000
Investment income:		
Income from financial assets	22,242	23,028
Realised gains on investments	1,025	4,316
	23,267	27,344
Investment expenses:		
Investment management expenses	(735)	(1,114)
Realised losses on investments	(426)	(152)
	(1,161)	(1,266)

Investment return on general business is initially recorded in the non-technical account and subsequently transferred to the technical account. Investment return has been wholly allocated to the technical account as all investments relate to the technical account.

8. Calendar year investment yield

	2020 £'000	2019 £'000
Average amount of syndicate funds during the year		
Sterling fund	80,452	71,634
US dollar fund	551,407	549,542
Canadian dollar fund	320,466	282,811
Euro fund	94,039	88,104
Aggregate gross investment return		
Before investment expenses	37,071	38,963
After investment expenses	36,336	37,849
Calendar year investment yield		
	%	%
Before investment expenses	3.5	3.9
After investment expenses	3.5	3.8
Analysis of calendar year investment yield by fund		
	%	%
Sterling fund	2.1	4.0
US dollar fund	4.0	4.5
Canadian dollar fund	3.2	2.7
Euro fund	2.6	3.2

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

9. Reconciliation of insurance balances

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

	Gross £'000	Reinsurance £'000	Net £'000
2020			
At 1 January 2020	651,508	(190,289)	461,219
Premiums written in the year	1,472,360	(547,531)	924,829
Premiums earned during the year	(1,445,344)	518,983	(926,361)
Foreign exchange adjustments	(18,038)	6,952	(11,086)
At 31 December 2020	660,486	(211,885)	448,601
2019			
At 1 January 2019	655,560	(159,060)	496,500
Premiums written in the year	1,450,009	(481,696)	968,313
Premiums earned during the year	(1,437,633)	444,842	(992,791)
Foreign exchange adjustments	(16,428)	5,625	(10,803)
At 31 December 2019	651,508	(190,289)	461,219

Claims Outstanding is analysed as follows:

	Gross £'000	Reinsurance £'000	Net £'000
2020			
Notified outstanding	842,634	(256,770)	585,864
Provision for claims incurred but not reported	923,758	(297,601)	626,157
Unallocated loss adjustment expenses	8,832	-	8,832
	1,775,224	(554,371)	1,220,853
2019			
Notified outstanding	792,736	(240,727)	552,009
Provision for claims incurred but not reported	747,744	(162,089)	585,655
Unallocated loss adjustment expenses	7,702	-	7,702
	1,548,182	(402,816)	1,145,366

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

	Gross £'000	Reinsurance £'000	Net £'000
2020			
At 1 January 2020	1,548,182	(402,816)	1,145,366
Claims incurred during the year	1,056,953	(394,629)	662,324
Claims paid during the year	(778,071)	223,330	(554,741)
Foreign exchange adjustments	(51,840)	19,744	(32,096)
At 31 December 2020	1,775,224	(554,371)	1,220,853
2019			
At 1 January 2019	1,656,196	(411,096)	1,245,100
Claims incurred during the year	679,542	(225,805)	453,737
Claims paid during the year	(752,969)	223,460	(529,509)
Foreign exchange adjustments	(34,587)	10,625	(23,962)
At 31 December 2019	1,548,182	(402,816)	1,145,366

10. Claims development

Within the calendar year technical result, a surplus of £51,972,000 (2019: surplus £59,000,000) relates to the reassessment of net claims incurred for previous accident years.

The following tables show the development of gross and net claims incurred including IBNR and the claims handling provision over the last ten years and include the historical development of Syndicate 807 which was reinsured to close into the 2012 year of account. The claims development tables are prepared on an underwriting year of account basis, and therefore reflect the pattern of earned premium and risk exposure over a number of years. All figures are shown converted at current year-end rates.

	End of first year	One year later	Two years later	Three years later	Four years later	Five years later	Six years later	Seven years later	Eight years later	Nine years later	Claims Paid
Year of Account	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Gross of reinsurance											
2011	351	639	639	630	613	604	596	594	592	590	(581)
2012	427	685	706	702	702	695	687	676	672		(650)
2013	295	605	626	619	608	599	593	589			(563)
2014	315	614	632	633	625	603	597				(535)
2015	265	598	613	617	597	583					(515)
2016	338	757	798	780	756						(637)
2017	595	981	1,027	1,022							(778)
2018	427	793	872								(559)
2019	324	888									(341)
2020	413										(93)
Net of reinsurance											
2011	274	540	560	531	516	508	502	500	497	494	(488)
2012	306	536	548	544	542	535	531	523	519		(502)
2013	244	500	513	506	501	491	485	480			(458)
2014	242	504	520	510	503	488	482				(445)
2015	231	511	525	532	516	503					(447)
2016	271	617	648	639	616						(524)
2017	392	708	734	730							(554)
2018	299	569	620								(396)
2019	235	610									(246)
2020	254										(56)
						Gross £m	Reinsurance £m	Net £m			
Estimated balance to pay						1,730	(538)	1,192			
2010 and prior						45	(16)	29			
Outstanding claims reserve						1,775	(554)	1,221			

11. Debtors arising out of direct insurance operations

	2020 £'000	2019 £'000
Amounts due from intermediaries within one year	450,733	450,882
Amounts due from intermediaries after one year	7,611	8,814
	458,344	459,696

12. Debtors arising out of reinsurance operations

	2020 £'000	2019 £'000
Amounts due from intermediaries within one year	191,939	189,178
Amounts due from intermediaries after one year	55,288	25,401
Gross reinsurance recoverable on paid claims within one year	73,833	100,649
	321,060	315,228

13. Other debtors

The following balances are included within other debtors:

	2020 £'000	2019 £'000
Overseas tax	4,580	5,794
Sundry debtors	2,739	14,328
Total other debtors	7,322	20,122
Due after more than one year	1,274	7,063

14. Reconciliation of deferred acquisition costs

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

	Gross £'000	Reinsurance £'000	Net £'000
2020			
At 1 January	197,131	(62,872)	134,259
Cost deferred during the year	424,589	(152,181)	272,408
Charge for the year	(421,777)	147,117	(274,660)
Foreign exchange adjustments	(4,864)	(398)	(5,262)
At 31 December	195,079	(68,334)	126,745
2019			
At 1 January	204,008	(50,048)	153,960
Cost deferred during the year	430,493	(144,782)	285,711
Charge for the year	(432,587)	130,006	(302,581)
Foreign exchange adjustments	(4,783)	1,952	(2,831)
At 31 December	197,131	(62,872)	134,259

15. Creditors arising out of direct insurance operations

	2020 £'000	2019 £'000
Amounts due to intermediaries within one year	85,372	88,555
Amounts due to intermediaries after one year	1,444	1,831
	86,816	90,386

16. Creditors arising out of reinsurance operations

	2020 £'000	2019 £'000
Amounts due to intermediaries within one year	370,417	375,606
Amounts due to intermediaries after one year	15,131	7,537
	385,548	383,143

17. Other creditors

The following balances are included within other creditors:

	2020 £'000	2019 £'000
Overseas tax	3,370	3,783
Tokio Marine Underwriting Limited loan	69,343	-
Sundry creditors	2,872	16,645
Profit commission payable	2,351	3,313
Forward currency contracts	528	111
Total other creditors	78,464	23,852

The Syndicate manages the foreign exchange risk posed by writing insurance policies in certain regions by using forward currency contracts. The total notional value of these contracts at 31 December 2020 was £46,288,000 (2019: £5,736,000).

Tokio Marine Underwriting Limited loan

Included within other creditors is a loan from Tokio Marine Underwriting Limited for US \$95,000,000. The loan is repayable on 30 June 2021.

18. Part VII transfer

On 30 December 2020, the Members and former Members of the Syndicate, as comprised for each of the relevant years of account between 1993 and April 2019 (or October 2020 in the case of German reinsurance), transferred all relevant policies (and related liabilities) underwritten by them for those years of account to Lloyd's Insurance Company S.A. ('Lloyd's Brussels'), in accordance with Part VII of the Financial Services and Markets Act 2000. On the same date, the Members of the Syndicate entered into a 100% Quota Share Reinsurance Agreement whereby Lloyd's Brussels reinsured all risks on the same policies back to the relevant open years of account of the Syndicate which wrote the transferring policies and/or inherited liabilities on transferring policies through Reinsurance to Close of earlier years of account.

Following the sanction of the scheme by the High Court on 25 November 2020, the scheme took effect on 30 December 2020 and the Members and former Members of the Syndicate transferred the impacted EEA policies and related liabilities to Lloyd's Brussels, together with cash of US \$159.8 million. On the same date, under the Reinsurance Agreement, Lloyd's Brussels reinsured the same risks back, together with an equal amount of cash of US \$159.8 million. The combined effect of the two transactions had no economic impact for the Syndicate, and accordingly there is no impact on the Syndicate's profit and loss account and no net impact on the or balance sheet. No adjustment has been made in the segmental note for transactions that occurred in respect of the transferred business up to the date of the transfer, which is consistent with the profit and loss account presentation.

Current year underwriting results for the transferred policies have been reported in the same classes of business as in prior years, as the effective date of the transfer was 30 December 2020, and in line with Society of Lloyd's guidance no movements were processed on these policies on 31 December 2020. In future years, results relating to these risks will be reported under the reinsurance accepted category, reflecting the new contractual arrangement with Lloyd's Brussels.

19. Off-balance sheet items

The Syndicate has not been party to an arrangement, which is not reflected in its balance sheet, where material risks and benefits arise for the Syndicate.

20. Related parties

	Premium from/to Related parties	Service companies	Tokio Marine Kiln Syndicates Limited
	£'000	£'000	£'000
2020			
Profit and Loss			
Gross Premiums written	153,733	119,263	-
Outward reinsurance premiums	(139,392)	-	-
Claims Paid: Gross amount	(138,676)	-	-
Claims Paid: Reinsurer's Share	37,825	-	-
Members' standard personal expenses (Managing agency fee)	-	-	(9,561)
Net operating expenses (Profit commission)	(1,433)	-	(394)
Net operating expenses (Expenses)	-	-	(81,700)
Net operating expenses (Impairment)	-	-	(1,953)
Net operating expenses (Interest charged)	-	-	1,046
Balance Sheet			
Reinsurers' share of technical provisions: Claims outstanding (Notified Claims)	33,817	-	-
Debtors: Debtors arising out of reinsurance operations	83,984	-	-
Technical provisions: Claims outstanding (Notified Claims)	(105,057)	-	-
Creditors: Creditors arising out of reinsurance operations	(59,796)	-	-
2019			
Profit and Loss			
Gross Premiums written	27,608	-	-
Outward reinsurance premiums	(115,408)	-	-
Claims Paid: Gross amount	-	-	-
Claims Paid: Reinsurer's Share	48,613	-	-
Members' standard personal expenses (Managing agency fee)	-	-	(8,367)
Net operating expenses (Profit commission)	-	(373)	(3,064)
Net operating expenses (Expenses)	-	-	(72,381)
Net operating expenses (Impairment)	-	(300)	-
Balance Sheet			
Reinsurers' share of technical provisions: Claims outstanding (Notified Claims)	144,627	-	-
Debtors: Debtors arising out of reinsurance operations	13,499	-	-
Technical provisions: Claims outstanding (Notified Claims)	(5,744)	-	-
Creditors: Creditors arising out of reinsurance operations	(77,400)	(222)	-

Premium from/to Related parties

Syndicate 510 accepted inwards reinsurance business from, and placed outwards reinsurance business with, other Tokio Marine Group entities, including Syndicate 1880, that are deemed to be related parties of Tokio Marine Kiln Syndicates Limited by virtue of the shareholding in Tokio Marine Kiln Group Limited by Tokio Marine Holdings, Inc. Syndicate 557 and Syndicate 510 are considered to be related parties as Tokio Marine Kiln Syndicates Limited is the managing agent of both syndicates. All transactions between these entities were conducted at arm's length and on normal commercial terms.

Service companies

The syndicate received business through the following service and related companies whose investments were held ultimately by the managing agent: Tokio Marine Kiln Hong Kong Limited (100% owned), Tokio Marine Kiln Singapore Pte Limited (100% owned) and Tokio Marine Kiln Regional Underwriting Limited (100% owned). During the year, TMKSs investment in Tokio Marine Kiln Hong Kong Limited and Tokio Marine Kiln Regional Underwriting Limited was impaired. This impairment was recharged from TMKS to Syndicates 510 and 1880.

The syndicate also received business through Tokio Marine Kiln Europe S.A. which was 100% owned by Tokio Marine Kiln Group Limited until its sale on 26 November 2019, WNC Insurance Services, Inc., whose parent WNC Holding Company, LP is 100% owned within the Tokio Marine Kiln Group as at 31 December 2020 and NAS Insurance Services, Inc. which is also owned by the Tokio Marine Group.

Tokio Marine Kiln Syndicates Limited

Profit commission is accrued by the Syndicate based on the annual accounting results of each year of account under UK GAAP and final settlement to the managing agent is paid when the year of account is closed after three years.

Managing agency fees were paid by the syndicate to Tokio Marine Kiln Syndicates Limited. In addition to this, expenses were paid to Tokio Marine Kiln Syndicates Limited for expenses paid on behalf of the syndicate and impairments related to the Hong Kong branch of Kiln which ceased trading in 2019 and Kiln Regional Underwriting Limited which ceased accepting business on behalf of Syndicate 510 in 2018.

Tokio Marine Underwriting Limited loan

Syndicate 510 entered into a loan agreement with Tokio Marine Underwriting Limited for US \$95,000,000. The loan is repayable on 30 June 2021.

21. Risk management

Details of the syndicate's risk management framework are given in the 'principal risks and uncertainties section' in the report of the directors of the managing agent.

a. Insurance risk

Earned premium sensitivity analysis

The following table gives an indication of the impact on Gross earned premium and members' balances of a one percent increase and decrease in earned premium on each year of account. Impact on members' balance has been calculated by applying the underlying attritional loss ratio.

	2020 £'000	2019 £'000
Impact of 1% increase on Gross earned premium	20,179	14,400
Impact of 1% increase on Members balances	5,282	2,200
Impact of 1% decrease on Gross earned premium	(20,179)	(14,400)
Impact of 1% decrease on Members balances	(5,282)	(2,200)

Claims sensitivity analysis

The following table gives an indication of the impact on members' balances of a one percent increase and decrease in loss ratio.

	2020 £'000	2019 £'000
Impact of 1% increase on Members balances	14,453	9,900
Impact of 1% decrease on Members balances	(14,453)	(9,900)

b. Financial risk

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

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

Credit risk

For details of the management of the syndicate's credit risks please refer to the directors' report of the managing agent.

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

	AAA	AA	A	BBB and below	Total
	£'000	£'000	£'000	£'000	£'000
2020					
Financial investments					
Other financial investments	301,861	177,111	278,064	176,617	933,653
Deposits with ceding undertakings	1,611	-	4,679	(5,737)	553
Overseas deposits	85,736	37,190	23,448	28,892	175,266
Cash at bank and in hand	-	-	6,272	2,870	9,142
Reinsurers' share of technical provisions	-	99,178	300,761	154,432	554,371
Reinsurance recoverable on paid claims	-	3,468	25,155	32,338	60,961
	389,208	316,947	638,379	389,412	1,733,946
2019					
Financial investments					
Other financial investments	248,714	197,896	270,402	157,689	874,701
Deposits with ceding undertakings	-	-	-	572	572
Overseas deposits	86,287	39,758	24,342	28,687	179,074
Cash at bank and in hand	-	-	4,943	2,508	7,451
Reinsurers' share of technical provisions	-	64,944	214,406	123,466	402,816
Reinsurance recoverable on paid claims	-	4,237	31,220	58,532	93,989
	335,001	306,835	545,313	371,454	1,558,603

Of the total reinsurers' share of outstanding claims including reinsurers' IBNR, 2.0% (2019: 11.1%) is collected under Outstanding Claims Advances (OCAs) which is a form of cash deposit allowing crystallisation of an outstanding reinsurance recovery. The majority of the collateral values relating to the granting of OCAs are for US Situs losses only. Surplus reinsurance treaties allow the syndicate to call upon OCAs at its discretion.

In respect of the reinsurers' share of claims, there are collateralised agreement with reinsurers including ILS arrangements, which comprise letters of credit and trust accounts totalling US \$702,224,000 (2019: US \$822,600,000).

The largest potential reinsurer credit exposure to the syndicate at 31 December 2020 was 20.0% with Tokio Marine & Nichido Fire Insurance Co., Ltd., an 'A+ Stable' Standards and Poor's (S&P) rated security (2019: 10.5% with Tokio Marine & Nichido Fire Insurance Co., Ltd.,). The outwards reinsurance team review the level of this exposure and take appropriate action where necessary. This includes requesting a letter of credit for all reinsurers, related parties included.

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

	Fully performing	Past due	Impairment	Total
	£'000	£'000	£'000	£'000
2020				
Financial investments				
Other financial investments	933,653	-	-	933,653
Deposits with ceding undertakings	553	-	-	553
Overseas deposits	175,266	-	-	175,266
Cash at bank and in hand	9,142	-	-	9,142
Reinsurers' share of technical provisions	554,371	-	-	554,371
Reinsurance recoverable on paid claims	60,961	12,872	-	73,833
Insurance debtors	386,333	72,011	-	458,344
	2,120,279	84,883	-	2,205,162
2019				
Financial investments				
Other financial investments	874,701	-	-	874,701
Deposits with ceding undertakings	572	-	-	572
Overseas deposits	179,074	-	-	179,074
Cash at bank and in hand	7,451	-	-	7,451
Reinsurers' share of technical provisions	402,816	-	-	402,816
Reinsurance recoverable on paid claims	93,989	6,660	-	100,649
Insurance debtors	414,161	45,535	-	459,696
	1,972,764	52,195	-	2,024,959

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

Liquidity risk

For details of the management of the syndicate's liquidity risks please refer to the directors' report of the managing agent.

The syndicate writes a significant proportion of US Situs and Canadian business which requires the deposit of appropriate monies into specific trust funds. Some of these trust funds are regulated, requiring quarterly assessment of the adequacy of funding. Surplus funds or additional funding requirements are settled each quarter between the regulated and non-regulated trust funds. In exceptional circumstances, and with approval from Lloyd's, inter-fund settlement can take place outside the quarterly process. As at 31 December 2020 the balance held in these trust funds was US \$588,878,000 (2019: US \$587,400,000) and Canadian \$464,648,000 (2019: Canadian \$365,700,000).

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

	Up to 1 year	1-3 years	3-5 years	Over 5 years	Total
	£'000	£'000	£'000	£'000	£'000
2020					
Financial liabilities:					
Forward currency contracts	528	-	-	-	528
Creditors	528,410	8,779	13,111	-	550,300
Deposits received from reinsurers	11,296	-	-	-	11,296
Technical provisions: Claims outstanding	688,056	599,065	258,190	229,913	1,775,224
Financial liabilities and claims outstanding	1,228,290	607,844	271,301	229,913	2,337,348
2019					
Financial liabilities:					
Forward currency contracts	111	-	-	-	111
Creditors	475,046	9,368	12,856	-	497,270
Deposits received from reinsurers	44,773	-	-	-	44,773
Technical provisions: Claims outstanding	583,748	528,738	226,610	209,086	1,548,182
Financial liabilities and claims outstanding	1,103,678	538,106	239,466	209,086	2,090,336

Foreign currency market risk

For details of the management of the syndicate's market risk please refer to the directors' report of the managing agent.

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

Foreign currency liquidity and exposure for the syndicate is the responsibility of the Chief Financial Officer. Strategy is recommended and agreed by the Investment Committee. The syndicate currency exposure and future cash flows are monitored by currency and potential exposures and shortfalls addressed by foreign currency transactions, hedges or cash calls on members.

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

The syndicate uses forward currency contracts to manage its exposure to foreign currency risks as a result of protecting the net asset position in the Canadian dollar and non-closing currencies. The use of financial derivatives is governed by the syndicate's policies approved by the Investment Committee, which provides written principles on the use of financial derivatives. More information is available in the 'fair value estimation' in part (c) of this note.

Exchange rate sensitivity analysis

The analysis below is performed for possible movements in key variables, with all other variables held constant, showing the impact on the result and net assets. The correlation of variables will have a significant effect in determining the ultimate impact. However, to isolate and demonstrate the effect due to changes in variables, each variable has been changed on an individual basis.

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

	2020 £'000	2019 £'000
Sterling strengthens 10% against US dollar	25,390	(4,165)
Sterling strengthens 10% against Canadian dollar	(11,054)	(3,197)
Sterling weakens 10% against US dollar	(25,390)	4,165
Sterling weakens 10% against Canadian dollar	11,054	3,197

Interest rate market risk

For further details of the management of the syndicate's market risk please refer to the Report of the directors of the managing agent.

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

The use of financial derivatives is governed by the syndicate's policies approved by the Investment Committee, which provides written principles on the use of financial derivatives.

Interest rate sensitivity analysis

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

The table below shows the estimated impact on the result and net assets or liabilities of a 50-basis point movement in interest rates on the market value of the syndicate's investments.

	2020 £'000	2019 £'000
Impact of 50 basis point increase on result	(8,050)	(8,278)
Impact of 50 basis point decrease on result	8,050	8,171
Impact of 50 basis point increase on net assets	(8,050)	(8,278)
Impact of 50 basis point decrease on net assets	8,050	8,171

Capital management

Disclosures on capital management can be found in the Report of the directors of the managing agent.

c. Fair value estimation

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

- Level 1 financial instruments comprise government bonds and securities which have been valued at fair value using quoted prices in an active market.
- Level 2 financial instruments are less regularly traded government agency bonds, supranational bonds, corporate bonds, money market and open-ended funds. These fair values have been derived from market observable inputs.
- The fair value for level 3 financial instruments is derived from inputs that are not observable. Level 3 securities include securitised instruments the fair value of which are based on broker quotes and a pricing vendor model as well as a mandatory loan with Lloyd's in relation to funding Lloyd's Brussels.

	Level 1	Level 2	Level 3	Total	Historical Cost
	£'000	£'000	£'000	£'000	£'000
2020					
Financial investments					
Other financial investments	117,282	793,959	22,186	933,427	910,505
Forward currency derivatives - assets	226	-	-	226	-
Overseas deposits	103,337	71,929	-	175,266	175,266
Forward currency derivatives - liabilities	(528)	-	-	(528)	-
	220,317	865,888	22,186	1,108,391	1,085,771
2019					
Financial investments					
Other financial investments	104,733	765,335	4,430	874,498	859,361
Forward currency derivatives - assets	203	-	-	203	-
Overseas deposits	110,072	69,002	-	179,074	179,074
Forward currency derivatives - liabilities	(111)	-	-	(111)	-
	214,897	834,337	4,430	1,053,664	1,038,435

Movement in level 3 financial investments is related to additional mandatory loans entered into on our behalf. There are no realised gains, investment income or foreign exchange on previous holdings.

The syndicate manages the foreign exchange risk posed by writing insurance policies in certain regions by using forward currency contracts. The total notional value of these contracts (forward currency derivative – assets) at 31 December 2020 was £16,594,000 (2019: £1,363,000).

22. Post balance sheet events

On 19 February 2021 Syndicate 510 received an additional US \$95,000,000 loan from Tokio Marine Underwriting Limited. The loan is repayable on 30 June 2021.

There are no other post balance sheet events.



Tokio Marine Combined Syndicate 510

Underwriting Year Accounts for the 2018 Year of Account

Report of the Directors of the managing agent

The managing agent presents its report at 31 December 2020 for the 2018 closed year of account. This report is prepared in accordance with the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005). It accompanies the underwriting year and run-off accounts prepared on an underwriting year basis of accounting as required by Statutory Instrument No. 1950 of 2008, Regulation 5 of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

2018 closed year of account

The Syndicate made a 2018 closing year profit of £8.4m on allocated capacity of £1,136.0m (return on capacity 0.7%) after taking account of operating expenses, foreign exchange, Lloyd's expenses and investment income.

The underwriting profit (excluding investment return and operating expenses, other than acquisition costs) attributable to the reinsurance to close (RITC) of the 2017 year of account was £71.4 million.

The 2018 underwriting year was impacted by a succession of weather-related catastrophic events in 2018 which included Hurricanes Michael, Hurricane Florence and the California Wildfires. In addition, the year suffered from COVID-19 losses through its exposures to event cancellation and trade interruption risks. These were partially offset by relatively benign claims experience across the Casualty and Enterprise Risk classes and favourable back year reserve releases across the Property and Marine divisions during 2020.

Disclosure of information to the auditors

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

Reappointment of auditors

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

Approved by the Board of directors

B T Irick

Chief Executive Officer
Tokio Marine Kiln Syndicates Limited
4 March 2021

Statement of managing agent's responsibilities

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ('2008 Regulations') require the managing agent to prepare syndicate underwriting year accounts at 31 December in respect of any underwriting year which is being closed by RITC which give a true and fair view of the result of the underwriting year at closure. Detailed requirements in respect of the underwriting year accounts are set out in the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005).

In preparing the syndicate underwriting year accounts, the managing agent is required to:

- select suitable accounting policies which are applied consistently and where there are items which affect more than one year of account, ensure a treatment which is equitable between the members of the syndicate affected. In particular, the amount charged by way of premium in respect of the RITC shall, where the reinsuring members and reinsured members are members of the same syndicate for different years of account, be equitable between them, having regard to the nature and amount of the liabilities reinsured;
- take into account all income and charges relating to a closed year of account without regard to the date of receipt or payment;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the underwriting year accounts.

The managing agent is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of each syndicate and enable it to ensure that each syndicate underwriting year accounts comply with the 2008 Regulations. It is also responsible for safeguarding the assets of each syndicate and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The managing agent is responsible for the maintenance and integrity of the corporate and financial information included on its website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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

Independent auditors' report to the members of syndicate 510 – 2018 closed year of account

Report on the audit of the syndicate underwriting year financial statements

Opinion

In our opinion, 510's syndicate underwriting year financial statements for the 2018 year of account for the 36 months ended 31 December 2020 (the "underwriting year financial statements"):

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2020 and of its profit for the 2018 closed year of account;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005).

We have audited the underwriting year financial statements included within the Underwriting Year Accounts for the 2018 Year of Account, which comprise: the Balance sheet for the 2018 closed year of account as at 31 December 2020; the Profit and loss account: technical account – general business and the Profit and loss account: non-technical account for the 36 months ended 31 December 2020; and the notes to the underwriting year financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)"), including ISA (UK) 800, and The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and other applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the underwriting year financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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

Emphasis of matter – Basis of preparation

Without modifying our opinion, we draw attention to note 1 of the underwriting year financial statements, which describes the basis of preparation. In particular, as these underwriting year financial statements relate to a closed underwriting year of account, matters relating to going concern are not relevant to these underwriting year financial statements. The underwriting year financial statements are prepared in accordance with a special purpose framework for the specific purpose as described in the Use of this report paragraph below. As a result, the underwriting year financial statements may not be suitable for another purpose.

Reporting on other information

The other information comprises all of the information in the Underwriting Year Accounts other than the underwriting year financial statements and our auditors' report thereon. The Managing Agent is responsible for the other information. Our opinion on the underwriting year financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

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

With respect to the Report of the directors of the managing agent (the “Managing Agent’s Report”), we also considered whether the disclosures required by The Insurance Accounts Directive (Lloyd’s Syndicate and Aggregate Accounts) Regulations 2008 and the Lloyd’s Syndicate Accounting Byelaw (No. 8 of 2005) have been included.

Based on our work undertaken in the course of the audit, The Insurance Accounts Directive (Lloyd’s Syndicate and Aggregate Accounts) Regulations 2008 requires us also to report certain opinions and matters as described below.

Managing Agent’s Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Managing Agent’s Report for the year ended 31 December 2020 is consistent with the underwriting year financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the underwriting year financial statements and the audit

Responsibilities of the Managing Agent for the underwriting year financial statements

As explained more fully in the Statement of Managing Agent’s Responsibilities, the Managing Agent is responsible for the preparation of the underwriting year financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view of the result for the 2018 closed year of account. The Managing Agent is also responsible for such internal control as they determine is necessary to enable the preparation of underwriting year financial statements that are free from material misstatement, whether due to fraud or error.

Auditors’ responsibilities for the audit of the underwriting year financial statements

Our objectives are to obtain reasonable assurance about whether the underwriting year financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors’ report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these underwriting year financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the syndicate and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK and European regulatory principles, such as those governed by the Prudential Regulation Authority and the Financial Conduct Authority, and those regulations set by the Council of Lloyd’s, and we considered the extent to which non-compliance might have a material effect on the underwriting year financial statements. We also considered those laws and regulations that have a direct impact on the underwriting year financial statements such as The Insurance Accounts Directive (Lloyd’s Syndicate and Aggregate Accounts) Regulations 2008. We evaluated management’s incentives and opportunities for fraudulent manipulation of the underwriting year financial statements (including the risk of override of controls), and determined that the principal risks were related to the posting of inappropriate journals and management bias in accounting estimates. Audit procedures performed included:

- Discussions with management, internal audit and the syndicate’s compliance function, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud.
- Challenging assumptions and judgements made by management in their significant accounting estimates, in particular in relation to valuation of the IBNR component of claims outstanding and estimated premium income.
- Identifying and testing journal entries, in particular any journals that appear to be posted outside the normal patterns and parameters, any journal entries posted with unusual account combinations and journals posted by senior management.
- Reviewing relevant meeting minutes including those of the Conflicts Committee, Risk, Capital & Compliance Committee and Audit Committee and correspondence with regulatory authorities, including Lloyd’s of London and the Prudential Regulatory Authority.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the

underwriting year financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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

Use of this report

This report, including the opinions, has been prepared for and only for the syndicate's members as a body in accordance with part 2 of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and Part C of the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005) and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Under The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005), we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Managing Agent in respect of the syndicate; or
- the underwriting year financial statements are not in agreement with the accounting records.

We have no exceptions to report arising from this responsibility.

Matthew Nichols (Senior statutory auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
4 March 2021

Profit and loss account: technical account - general business for the 36 months ended 31 December 2020

	Note	2018 £'000
Syndicate allocated capacity		1,135,651
Earned premiums, net of reinsurance		
Gross premiums written	3	1,317,936
Outward reinsurance premiums		(375,991)
Earned premiums, net of reinsurance		941,945
Reinsurance to close premium receivable, net of reinsurance	4	669,253
Allocated investment return transferred from the non-technical account		34,715
Total technical income		1,645,913
Claims incurred, net of reinsurance		
Claims paid:		
- Gross amount		(757,124)
- Reinsurers' share		214,565
- Reinsurance to close premium payable, net of reinsurance	4	(686,907)
Claims incurred, net of reinsurance		(1,229,466)
Members' standard personal expenses		(19,052)
Net operating expenses	5,6	(377,022)
Total technical charges		(1,625,540)
Balance on the technical account for general business		20,373

The notes to the underwriting year accounts form part of these underwriting year of accounts.

Profit and loss account: non-technical account for the 36 months ended 31 December 2020

	Note	2018 £'000
Balance on the technical account for general business		20,373
Investment income	8	25,519
Unrealised gains on investments		11,090
Investment expenses and charges	8	(1,894)
Allocated investment return transferred to the general business technical account		(34,715)
Other income		207
Non-technical foreign exchange loss		(12,180)
Result before members' agents fees		8,400
Members' agents fee advances		(2,726)
Amounts due to members		5,674

There is no other comprehensive income. Accordingly, a separate statement of other comprehensive income has not been provided.

The notes to the underwriting year accounts form part of these underwriting year of accounts.

Balance sheet for the 2018 closed year of account as at 31 December 2020

	Note	2018 £'000
Assets		
Investments		
Other financial investments	9	565,677
Deposits with ceding undertakings		553
Debtors		
Debtors arising out of direct insurance operations		61,280
Debtors arising out of reinsurance operations		150,372
Reinsurance recoveries anticipated on gross reinsurance to close premium payable to close the account	4	228,634
Other assets		
Cash at bank and in hand		3,291
Overseas deposits		106,397
Prepayments and accrued income		171
Total assets		1,116,375
Liabilities		
Amount due to members		5,674
Reinsurance to close premium payable to close the account - gross amount	4	915,541
Deposits received from reinsurers		11,296
Creditors		
Creditors arising out of direct insurance operations		26,081
Creditors arising out of reinsurance operations		144,999
Other creditors		11,915
Accruals and deferred income		869
Total liabilities		1,116,375

The underwriting year accounts, which comprise the profit and loss: technical account - general business for the 36 months ended 31 December 2020, the profit and loss: non-technical account for the 36 months ended 31 December 2020, the balance sheet for the 2018 closed year of account as at 31 December 2020 and the notes to the underwriting year accounts, were approved by the Board of Tokio Marine Kiln Syndicates Limited on 2 March 2021 and were signed on its behalf by

R Patel

Chief Financial Officer
Tokio Marine Kiln Syndicates Limited
4 March 2021

Notes to the underwriting year accounts

1. Accounting policies

1.1 Statement of compliance

These underwriting year accounts have been prepared in accordance with The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and Accounting Standards in the United Kingdom, including Financial Reporting Standard 102, 'The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland' (FRS 102) and Financial Reporting Standard 103, 'Insurance Contracts' (FRS 103).

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

These underwriting year accounts are presented in pounds sterling, which is the functional currency of the Syndicate. All amounts have been rounded to the nearest thousand pounds, unless otherwise stated.

1.2 New standards and amendments

The Syndicate has applied FRS 102 and FRS 103, both as issued in March 2018, which reflects the amendments made as part of the Triennial Review 2017. There are no amendments to UK accounting standards impacting the 2018 year of account.

1.3 Funds at Lloyd's

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

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

1.4 Going concern

Having assessed the principal risks, the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the underwriting year accounts.

1.5 Summary of accounting policies

The significant accounting policies adopted in the preparation of the underwriting year accounts are set out below. They have been applied consistently to all periods presented in these annual accounts.

a. Product classification

(Re)insurance contracts are defined as those containing significant insurance risk at the inception of the contract, or those where at the inception of the contract there is a scenario with commercial substance where the level of insurance risk may be significant. The significance of insurance risk is dependent on both the probability of an insured event and the magnitude of its potential effect.

b. Premiums written

Inwards premiums written comprise premiums on contracts incepting during the financial year as well as adjustments made in the year to premiums on contracts incepting in prior accounting periods. Premiums in respect of insurance contracts underwritten under facilities such as binding authorities, lineslips or consortia arrangements are estimated based on information provided by the broker, past underwriting experience and prevailing market conditions. The estimates are updated on a regular basis. It is assumed that the majority of risks incept evenly across the period of the facility; however bespoke writing patterns are used for a small number of facilities. Therefore, only the proportion of risks incepted at the year-end date are reported as written. Premiums are shown gross of brokerage payable and exclude taxes and duties levied on them. Estimates are made for pipeline premiums on a risk by risk basis, representing the difference between the written and signed premium, which is held on the balance sheet as an asset.

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

Gross premiums are allocated to years of account on the basis of the inception date of the policy. Premiums written under binding authorities, lineslips or consortium arrangements are allocated to the year of account into which the arrangement incepts. Additional and return premiums follow the year of account of the original premium. Estimates are made for pipeline premiums, representing premiums written but not reported to the Syndicate by the reporting date.

c. Earned premiums

Inwards and outwards earned premium represents the amount of written premium deemed to have been exposed to loss according to defined earnings patterns. The earning patterns are based primarily on time apportionment, with an adjustment for the risk profile of certain classes of business, particularly those exposed to seasonal weather-related events. The provision for unearned premium comprises the proportion of gross premiums written which is estimated to be earned after the balance sheet date.

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

d. Claims paid and incurred

Paid claims represent all claims paid during the year and include claims handling expenses.

Claims incurred comprise paid claims and changes in the provisions for outstanding claims, including provisions for claims incurred but not reported (IBNR) and related expenses, together with any adjustments to claims from previous years.

e. Claims provisions and related recoveries

Gross claims incurred comprise the estimated cost of all claims occurring during the year, whether reported or not, including related direct and indirect claims handling costs and adjustments to claims outstanding from previous years.

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

f. Provision for unexpired risks

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

All reasonable steps are taken to ensure that the appropriate information regarding claims exposures is obtained. The calculation is based upon statistical analyses of historical experience, which assumes that the development pattern of premiums and claims will be similar to past experience. However, given the uncertainty in establishing a provision for unexpired risks, it is likely that the final outcome will prove to be different from the original liability established.

g. Net operating expenses and personal expenses

Net operating expenses comprise the cost of acquiring business including commission and profit commission as well as the staff costs and other expenses attributable to underwriting operations.

Personal expenses comprise managing agent's fee, Lloyd's central fund contributions and Lloyd's subscriptions.

Net operating expenses and personal expenses are recognised on the accruals basis and represent the expenses incurred on underwriting operations and also the reinsurance commission income.

Commission and brokerage are charged to the year of account to which the relevant policy is allocated.

h. Finance costs

Finance costs comprise interest paid and bank charges together with facility fees on letters of credit and are recorded in the period in which they are incurred.

i. Acquisition costs

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

Deferred acquisition costs, representing the proportion of commission and other acquisition costs that relate to unearned premium on policies in force at the year-end, are charged over the period in which related premiums are earned. Deferred acquisition costs are reviewed by category of business at the end of each reporting period and are written off where they are no longer considered to be recoverable.

j. Foreign currencies

Functional and presentation currency

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

Transactions and balances

Foreign currency transactions are recorded in the functional currency using the exchange rates prevailing at the dates of the transactions or an appropriate average rate of exchange. At each period end foreign currency monetary items are translated using the closing rate. For this purpose, all assets and liabilities arising from insurance contracts (including unearned premiums, deferred acquisition costs and unexpired risks provisions) are monetary items.

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

Exchange rates used are as follows:

	2018 calendar year average	2019 calendar year average	2020 calendar year average	Date of RITC
US dollar	1.34	1.28	1.28	1.37
Canadian dollar	1.73	1.69	1.72	1.74

The distributable result on closing a year of account, usually at 36 months, is calculated using the exchange rates prevailing at the date of closure.

k. Financial investments

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

Information relating to investments is reported to internal management on a fair value basis therefore all financial investments are designated at fair value through profit or loss at acquisition. These are initially recorded at cost, which equates fair value and subsequently carried at fair value through profit or loss.

All regular purchases and sales of financial investments are recognised on the trade date, being the date the Syndicate commits to purchase or sell the asset.

Fair value determinations for financial investments are based on either bid market prices at close of business on the year-end date for listed investments, broker or dealer price quotations, or by reference to current market values of another substantially similar instrument.

A financial asset is derecognised when the contractual right to receive cash flows expires or where they have been transferred and the Syndicate has also substantially transferred all risks and rewards of ownership. A financial liability is derecognised once the obligation under the liability is discharged, cancelled or expires.

Financial assets and liabilities are offset and the net amount reported in the balance sheet only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously.

Equity instruments that are not publicly traded and whose value cannot be measured reliably are subsequently measured at cost less impairment.

l. Derivative financial instruments

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

The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets.

m. Debtors and creditors arising out of direct and reinsurance operations

Debtors and creditors arising out of direct and reinsurance operations are initially recognised at transaction price and are subsequently carried at the recoverable amount. The carrying value is reviewed for impairment whenever events or circumstances indicate that the carrying amount is greater than the recoverable amount, with the impairment adjustment recorded in the profit and loss. Debtors arising out of direct insurance and reinsurance operations are stated net of specific provisions against doubtful debts which are made on the basis of reviews conducted by management.

n. Other debtors and creditors

Any other debtors and creditors are recognised initially at transaction price and subsequently carried at the recoverable amount. The carrying value of other debtors is reviewed for impairment whenever events or circumstances indicate that the carrying amount is greater than the recoverable amount, with the impairment adjustment recorded in the profit and loss account. All other debtors and creditors are due within one year, unless otherwise stated.

o. Cash at bank and in hand

Cash at bank and in hand include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of 24 hours or less. Bank overdrafts, when applicable, are shown within borrowings in current liabilities. These are measured at cost less any allowance for impairment. Cash and cash equivalents consist of cash at bank and in hand only.

p. Overseas deposits

Overseas deposits are lodged as a condition of conducting underwriting business in certain countries. These are measured at cost less any allowance for impairment and classified as other assets.

q. Investment return

Investment return comprises all investment income, realised investment gains and losses and movements in unrealised gains and losses, net of investment management expenses, including interest. Realised gains and losses on investments carried at fair value through profit or loss are calculated as the difference between sale proceeds and the fair value at the previous balance sheet date, or purchase price if acquired during the year. Unrealised gains and losses on investments represent the difference between the fair value at the balance sheet date and the fair value at the previous balance sheet date, or purchase price if acquired during the year.

Investment return on general business is initially recorded in the non-technical account. A transfer is made from the non-technical account to the general business technical account. Investment return has been wholly allocated to the technical account as all investments relate to the technical account.

Investment return that is not specific to a year of account is allocated based on the proportion of the assets generating that return held by each year of account.

r. Investment yield

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

s. Taxation

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

The syndicate pays various overseas direct and premium based taxes, the majority of which are allocable to their members in direct proportion to their capacity and which can be claimed by members either as double tax relief or as an expense against tax liabilities.

t. Pension costs

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

TMKS also operates a defined benefit scheme through the R J Kiln & Co. Limited Pension and Assurance Scheme (closed to future benefit accruals from 1 May 2003). This fund is valued at the balance sheet date by the scheme actuary. TMKS allocates a charge to the syndicate during the year which represents the syndicate's yearly share of the obligated funding requirement of the scheme.

u. Profit commission

Profit commission is charged by the managing agent at a rate of 12.5% of profit subject to the operation of a two year deficit clause. The syndicate's profit commission is calculated after the deduction of a 5% divisional profit share, again subject to the operation of a divisional two-year deficit clause. Final settlement to the managing agent is made when the year of account closes; normally at 36 months. Divisional profit share does not become payable until after the appropriate year of account closes; normally at 36 months. Profit commission is estimated on an ultimate basis for each year of account and accrued by the syndicate based on the interim annual accounting results of the year of account under UK GAAP to the extent it is probable (more likely than not) that the syndicate will be required to transfer economic benefits in settlement.

v. Provisions

A provision is recognised when the syndicate has a present legal or constructive obligation, as a result of a past event, that is expected to result in an outflow of resources. A provision is recognised when a reliable estimate of the amount of the obligation can be made.

w. Current and non-current disclosure

For each asset and liability line item that combines amounts expected to be recovered or settled (a) no more than 12 months after the year-end date and (b) more than 12 months after the year-end date, the relevant note discloses the amount expected to be recovered or settled after more than 12 months.

x. Contingencies

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

y. Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously.

2. Use of critical accounting estimates and judgements in applying accounting policies

The preparation of the underwriting year accounts requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Syndicate's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the underwriting accounts are those listed below.

Incurring but not reported claims (IBNR)	<p>The estimation of claims IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Syndicate, where more information about the claim event is generally available. In calculating the estimated cost of unpaid claims the Syndicate uses a variety of estimation techniques, generally based upon statistical analyses of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience. Allowance is made, however, for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims including:</p> <ul style="list-style-type: none">• changes in processes which might accelerate or slow down the development and/or recording of paid or incurred claims compared with the statistics from previous periods;• changes in the legal environment;• the effects of inflation;• changes in the mix of business;• the impact of large losses; and• movements in industry benchmarks.
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A component of these estimation techniques is usually the estimation of the cost of notified but not paid claims. In estimating the cost of these, regard is given to the claim circumstance as reported, any information available from loss adjusters and information on the cost of settling claims with similar characteristics in previous periods.

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

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

The directors consider that the provisions for gross claims and related reinsurance recoveries are fairly stated on the basis of the information currently available to them. However, the ultimate liability will vary as a result of subsequent information and events and this may result in significant adjustments to the amounts provided. Adjustments to the amounts of claims provisions established in prior years are reflected in the financial statements for the period in which the adjustments are made. The methods used, and the estimates made, are reviewed regularly.

Provisions are calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts that will be recoverable from reinsurers based upon the gross provisions and having due regard to collectability. An estimate of the future cost of indirect claims handling is calculated as a percentage of the claims reserves held at the balance sheet date.

Property, Enterprise Risk, Reinsurance, Accident and Health

These business areas are predominantly 'short tail', as there is not a significant delay between the occurrence of the claim and the claim being reported, with the exception of the liability risks written in the Property division. For short tail risks, the costs of claims notified to the Syndicate at the year-end date are estimated on a case by case basis to reflect the individual circumstances of each claim. The ultimate expected cost of claims is projected from this data by reference to statistics which show how estimates of claims incurred in previous periods have developed over time to reflect changes in the underlying estimates of the cost of notified claims and late notifications. For liability risks, claims may not become apparent for many years after the event giving rise to the claim has happened, and there will typically be greater variation between initial estimates and final outcomes compared with other classes. Differences between the estimated cost and subsequent re-estimation or settlement of

claims are reflected in the technical account for the year in which these claims are re-estimated or settled.

Marine and Aviation business

These business areas have a mix of hull and cargo risks that are short tail in nature, and liability risks which are longer tail. The methodology uses a predetermined formula whereby greater weight is given to actual claims experience as time passes. The initial estimate of the loss ratio based on the experience of previous years adjusted for factors such as premium rate changes and claims inflation, and on the anticipated market experience, is an important assumption in this estimation technique. The assessment of claims inflation and anticipated market experience is particularly sensitive to the level of court awards and to the development of legal precedent on matters of contract and tort. This class of business is also potentially subject to the emergence of new types of latent claims but no specific allowance is included for this as at the year-end date.

COVID-19

The directors are aware of the heightened estimation uncertainty in reserving for COVID-19 estimated losses, exacerbated by the ongoing nature of the event. Management have a robust reserving approach and carried out detailed analyses to corroborate the held reserves at the year-end date.

Provision for unexpired risks	All reasonable steps are taken to ensure that the appropriate information regarding claims exposures is obtained. The calculation is based upon statistical analyses of historical experience, which assumes that the development pattern of premium and claims will be similar to past experience. However, given the uncertainty in establishing a provision for unexpired risks, it is likely that the final outcome will prove to be different from the original liability established.
Reinsurance recoverable	Reinsurance is deemed to be fully recoverable unless there is reason to doubt to its recoverability. In these circumstances specific provisions are made based on the expected proportional recovery and the credit risk profile of the counterparties.
Financial investments	Financial investments are carried in the balance sheet at fair values. Market valuations of funds are obtained from fund administrators. The fair value of financial instruments where no active market exists or where quoted prices are not otherwise available is determined by using valuation techniques.

3. Segmental analysis

An analysis of the underwriting result before investment return and profit or loss on exchange is set out below:

	Gross premiums written £'000	Gross premiums earned £'000	Gross claims incurred £'000	Gross operating expenses £'000	Reinsurance balance £'000	Result £'000
2018						
Fire and other damage to property	510,527	518,945	(343,950)	(173,058)	(10,678)	(8,741)
Third party liability	300,114	282,648	(123,038)	(128,000)	(7,780)	23,830
Marine, Aviation and Transport	147,622	151,944	(125,229)	(66,883)	1,594	(38,574)
Reinsurance acceptances	144,603	156,743	(90,474)	(44,324)	(5,601)	16,344
Accident & Health	77,038	78,049	(52,840)	(38,952)	364	(13,379)
Motor (Other)	65,682	58,461	(40,492)	(26,542)	504	(8,069)
Credit and suretyship	54,948	54,793	(20,346)	(14,977)	(2,833)	16,637
Legal expenses	17,402	16,353	(9,535)	(9,232)	24	(2,390)
	1,317,936	1,317,936	(805,904)	(501,968)	(24,406)	(14,342)

All business was concluded in the UK.

4. Reinsurance to close premium

	Reported £'000	IBNR £'000	Total £'000
Reinsurance to close premium receivable, net of reinsurance			
Gross reinsurance to close premium receivable	536,067	330,694	866,761
Reinsurance recoveries anticipated	(163,063)	(34,445)	(197,508)
	373,004	296,249	669,253
Reinsurance to close premium payable, net of reinsurance			
Gross reinsurance to close premium payable	544,253	371,288	915,541
Reinsurance recoveries anticipated	(153,878)	(74,756)	(228,634)
	390,375	296,532	686,907

The reinsurance to close is effected to the 2019 year of account of Syndicate 510.

5. Net operating expenses

	£'000
Acquisition costs	(378,671)
Acquisition costs - other	(21,766)
Administrative expenses	(82,479)
Reinsurance commissions and profit participations	105,894
	(377,022)

Included within administrative expenses is auditors' remuneration:

	£'000
Fees payable to the syndicate's auditor for the audit of the syndicate accounts	151
Other services pursuant to legislation	137
All other services	203
	491

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

Audit fees are billed combined for the TMK Group and the Syndicate and paid by a fellow subsidiary of TMKS. Audit fees are recharged to the Syndicate.

6. Staff costs

The syndicate and its managing agent have no employees. Staff were employed by Tokio Marine Kiln Insurance Services Limited. The following amounts were recharged to the 2018 year of account in respect of salary costs and are included within administrative expenses:

	£'000
Wages and salaries	(31,239)
Social Security Costs and Pension Costs	(6,380)
	(37,619)

7. Analysis of technical result

	2017 & prior £'000	2018 £'000	Total £'000
Technical account balance excluding investment return and operating expenses	74,225	179,847	254,072
Brokerage and commission on gross premium	-	(272,777)	(272,777)
	74,225	(92,930)	(18,705)

8. Investment return

	2018 £'000
Investment income:	
Income from investments	23,481
Realised gains on investments	2,038
	25,519
Investment expenses:	
Investment management expenses, including interest	(913)
Realised losses on investments	(981)
	(1,894)

Investment return for the 2018 year of account is recognised in the 2018, 2019 and 2020 calendar years. The investment income and yield for these calendar years is disclosed in the investment return notes in each of the respective syndicate annual accounts.

9. Financial investments

	Fair value £'000s	Purchase price £'000s
Shares and other variable yield securities	100,200	98,768
Debt securities and other fixed income securities	459,462	450,538
Deposits with credit institutions	5,889	5,889
Other investments	126	-
	565,677	555,195

10. Off-balance sheet items

The Syndicate has not been party to an arrangement, which is not reflected in its balance sheet, where material risks and benefits arise for the Syndicate.

11. Post balance sheet events

There are no post balance sheet events.

Seven-year summary (unaudited)

	2012	2013	2014	2015	2016	2017	2018
Syndicate allocated capacity £'000	1,062,272	1,063,666	1,063,968	1,062,852	1,061,786	1,130,535	1,135,651
Number of underwriting members	1,647	1,661	1,660	1,635	1,656	1,631	1,627
Aggregate gross premiums £'000	864,982	854,025	1,003,816	871,514	992,256	969,221	932,254
– as a percentage of allocated capacity %	81	80	94	82	93	86	82
Result £'000	90,430	115,688	167,054	118,010	46,716	(25,635)	8,400
– as a percentage of allocated capacity %	9	11	16	11	4	(2)	1
Results for an illustrative share of £10,000							
Gross premiums £	8,143	8,029	9,435	8,557	9,345	8,573	8,079
Net premiums £	6,156	6,268	7,062	6,711	7,354	6,563	5,701
Net claims incurred £	(4,623)	(4,379)	(5,324)	(4,515)	(6,221)	(6,061)	(4,933)
Administrative expense £	(524)	(511)	(568)	(657)	(681)	(633)	(726)
Underwriting result £	1,009	1,378	1,170	1,539	452	(131)	41
Profit/(loss) on exchange £	1	(55)	687	(244)	111	(180)	(107)
Interest return £	87	74	88	127	113	255	306
Other income £	0	0	0	0	0	0	2
Personal expenses £	(245)	(309)	(377)	(313)	(236)	(171)	(168)
Result before members' agents fees £	852	1,088	1,568	1,109	440	(227)	74

The seven-year summary has been prepared from the audited underwriting year accounts. Gross premiums are stated net of acquisition costs. Net premiums are stated after acquisition costs and reinsurance commissions receivable. Net claims incurred includes reinsurance to close premiums. Personal expenses are at the amount which would be incurred pro rata by individual Names writing the premium income in the syndicate irrespective of any minimum charge applicable. Corporate members may be charged at different rates. Foreign tax, which may be treated as a credit for personal tax purposes has been excluded. Where necessary, the results have been adjusted to comply with the current underwriting year accounting policies of the syndicate. The adjustments arising are not material and have not been separately disclosed.