MS Amlin Corporate Member Limited

Annual Report & Financial Statements

31 December 2020

Registered Number: 02969411

Registered Office:
The Leadenhall Building
122 Leadenhall Street
London
EC3V 4AG

Contents

Directors and officers

Directors

P J Green
J G Slabbert
S Watabe

Company Secretary

F Moule

Registered Office

The Leadenhall Building
122 Leadenhall Street
London
EC3V 4AG

Independent Auditor

KPMG LLP
15 Canada Square
London
E14 5GL

Strategic Report

The directors of MS Amlin Corporate Member Limited (the 'Company') present their annual report and the audited financial statements for the year ended 31 December 2020.

Business review and principal activities

The Company is a wholly owned subsidiary of Mitsui Sumitomo Insurance Company, Limited ('MSI'). The Company and its parent form part of a group of companies, of which the ultimate parent is MS&AD Insurance Group Holdings, Inc.

The Company carries on business as a corporate member at Lloyd's, underwriting exclusively on Syndicate 2001 (the 'Syndicate'), which is managed by MS Amlin Underwriting Limited (the 'managing agent' or 'MSAUL'). The principal activity of the Syndicate is the transaction of general insurance and reinsurance business in the United Kingdom.

The Syndicate's total premium income capacity (net of brokerage) for each of the years of account open during 2020 is as follows:

	£m
2018 year of account	1,850
2019 year of account	1,850
2020 year of account	1,600

Syndicate 2001's underwriting capacity for the 2021 year of account has been maintained at £1,600.0 million.

Restructuring and change

During 2019, the managing agent, along with the Company and MSI, undertook a strategic review of the business underwritten by the Syndicate. As a result of this strategic and other business reviews, the decisions were made to cease underwriting aviation insurance, domestic UK property and casualty, pro rata and international casualty lines of business. These classes have largely ceased to be written on and before 31 January 2020 except to fulfil customer conduct requirements.

The underwriting actions taken over the course of 2019 and 2020, together with the structural and management changes described below, have enable the Syndicate to focus on its core markets of Reinsurance and Specialty. During 2021, management intends to improve the quality of the existing portfolio as well as establish a platform for future profitability and growth.

On 19 November 2019, MSI announced a reorganisation of its international business including the removal of the regional holding company framework across its European region, including the previous intermediate parent MS Amlin plc. This culminated on 1 January 2020 with the transfer of the entire shareholding of the managing agent and the Company to MSI. MSI and its subsidiaries are hereby collectively referred to as the Group.

During 2020, a review of shared services in the UK was undertaken. The outcome is that a number of support functions and activities would be federated to the insurance entities of the former MS Amlin Group, including the managing agent. A new executive and senior management team of the managing agent was implemented through this activity. This has included the appointment of a new Chief Executive Officer and bringing all underwriting operations under a single Chief Underwriting Officer. Upcoming additions including a new Chief Risk Officer, Chief Actuary and Director of Underwriting Performance. These structural changes simplify the operating model and enhances strategic and operational oversight of the managing agent in managing the affairs of the Syndicate. This activity will complete in 2021 and the directors believe offers greater opportunities for strategic growth and cost savings .

In managing liquidity and capital risks, the Company and Syndicate previously had access to a revolving credit facility organised by MS Amlin plc. Following the restructure above, this facility was lapsed and the managing agent, on behalf of the Syndicate, has entered into new facilities to directly manage its liquidity risks. These facilities include a cash based revolving credit facility for large claims and letter of credit facilities for trust fund collateral.

Subsequent to the lapse of the MS Amlin plc revolving credit facility, the Company has entered into a £550.0 million standby letter of credit facility with a syndicate of banks led by Barclays Bank plc that is available to be lodged as Fund's at Lloyd's capital.

Further details on these facilities can be found in note 14(h).

Underwriting performance

	2020 £m	2019 £m
Gross written premiums	1,370.0	2,084.5
Net written premiums	975.8	1,548.7
Net earned premiums	1,281.9	1,684.6
Claims ratio	76%	65%
Expense ratio	43%	41%
Combined ratio	119%	106%

The underwriting result is a loss of £242.8 million (balance on the technical account less allocated investment return) (2019: £103.4 million loss) with the overall combined ratio of 119% (2019: 106%).

Gross written premiums decreased to £1,370.0 million (2019: £2,084.5 million), a reduction of 34% primarily driven by the underwriting strategy review noted above. Net earned premiums decreased by £452.7 million to £1,281.9 million (2019: £1,684.6 million) for the same reason. The Syndicate's claims ratio deteriorated to 76% (2019: 65%), primarily reflecting the impact of the COVID pandemic, but also the impact of a large number of natural catastrophe events.

COVID has impacted all organisations in many ways. Operationally, we have adapted our ways of working such that the vast majority of our staff are able to work from home. The loss impact of COVID has been experienced across a number of classes, including our discontinued UK P&C classes for business interruption claims. These claims have been subject to court proceedings between a number of insurers (including MS AUL), the FCA and representative policyholder groups. These proceedings culminated in a Supreme Court ruling issued on 15 January 2021. This process has brought a degree of certainty to many, but not all, matters relating to coverage of this extremely unusual event and will enable the settlement of many of those claims. To date, only a small proportion of claims have been settled. As described in the notes to the financial statements, there is uncertainty in all loss reserves but, in the case of COVID, that uncertainty is extended by the nature of the loss event, the fact that the loss is ongoing and the possibility that further legal action may be required to resolve the coverage issues (both for insurers and reinsurers) that have been raised.

In terms of COVID losses, the Company has recorded a gross best estimate loss of £229.0 million. After reinsurance recoveries of £93.0 million, the net best estimate loss of £136.0 million, representing 11% of the loss ratio. Management also incorporates a margin in excess of best estimate to consider the uncertainty of the loss estimates, including COVID.

The year 2020 also saw a large number of natural catastrophe events, with a record number of Atlantic hurricanes. However, the overall insured losses from these hurricanes is considerably lower than those in 2005 or 2017. Other losses have arisen from wildfires and severe convective storms (giving rise to tornados, floods and hail losses). These events have exceeded our loss expectations for this type of event and contributed 7% to the loss ratio.

The expense ratio has deteriorated by 2% to 43% (2019: 41%), primarily as a result of the significant reduction in net earned premium. Following the reorganisation of the business, management has been focused on the appropriate structure of the business, as noted above.

Investment performance

The Company produced an investment return of £60.6 million in the year (2019: £114.8 million). Syndicate underwriting assets, predominantly bonds and overseas deposits, generated £22.3 million at a return of 1.2% (2019: £46.2 million and return of 2.5%). Corporate member capital (including Funds in Syndicate) generated a gain of £41.2 million at a return of 8.7% (2019: £67.9 million and return of 11.5%).

Investment returns were strong for 2020 and ahead of initial estimates, with the portfolio rebounding well from losses in the first quarter following COVID. This came from a mixture of investment management (IM) team decisions (allocation changes) and the recovery in risk asset markets from the second quarter onwards. A large degree of policymaker support and vaccine developments were the key drivers of the recovery. Bonds zero duration produced decent returns and a consistently strong source of liquidity for the portfolios. Equity returns were positive, holding up well in the most challenging months, then participating in the upside phases of the year; full year results were pleasing against the extremely volatile backdrop. Property came in ahead of expectations that were reassessed in the midst of the pandemic. Good results in infrastructure, industrial, residential and farmland holdings offset softness in retail and offices, highlighting the divergence of conditions for commercial property sectors. Cash continues to offer little in terms of returns, and this is unlikely to change until interest rates are increased, which seems a distant prospect at this time.

At 31 December 2020, investments amounted to £2,462.5 million (2019: £2,644.8 million). Directly held bonds accounted for 38.5% of the portfolio (2019: 47.2%) with the residual of the portfolio held mostly in collective investment schemes and equities. The bond portfolio remains of a high quality with 23.3% of the portfolio government and government agency backed.

Principal risks and uncertainties and financial risk management

The Company's business is to provide capital to the Syndicate. The main risk to the Company is that the Syndicate generates material financial losses. Risk management of the Syndicate is delegated to the managing agent.

The principal risks to the Company, through the Syndicate, are insurance risk, financial investment risk, foreign exchange risk and credit risk. Detailed explanations of these risks are provided in notes 13, 14 & 15 to these financial statements.

The Syndicate is also exposed to operational risk through its participation in the Lloyd's market. Lloyd's is a mutual society and the Syndicate is dependent on Lloyd's license and ratings to operate.

In addition, the Company is exposed to pension risk associated with the Lloyd's Superannuation Fund, a funded defined benefit scheme. The deficit of the fund may increase if the fair value of the assets falls, or the discounted value of the liabilities increases (e.g. through a decrease in discount rates), or both. The key risks associated with the quantum of the deficit are changes in bond yields, asset volatility, inflation risk and life expectancy.

On 30 November 2020, the Company and the Trustee agreed to close the fund to future accrual. This meant that the employees of the Company and MS Amlin Corporate Services Limited ('MS ACS') in the Fund as active members were moved to deferred status, and their contributions ceased. The purpose of this change was to provide parity of remuneration offerings to all employees, and it also removed the risk of a Section 75 debt arising for either the Company or MS ACS as employers. The payments under the recovery plan remained unchanged. Further details on the Lloyd's Superannuation Fund can be found in note 18.

The directors do not believe there are any other principal risks or uncertainties connected with the Company.

Future developments

Syndicate 2001's underwriting capacity for 2021 is £1,600.0 million (2020: £1,600.0 million). The Syndicate will continue to transact the business of general insurance and reinsurance business within the changes outlined on page 3.

US MGA acquisition

On 8 April 2021, the Company's parent announced an agreement to acquire the Managing General Agency (MGA) International Transportation and Marine Office, LLC (ITMO) and its associated subsidiaries as part of a new strategy to provide access to high quality specialty MGAs in the US – the largest MGA market in the world. Completion of the transaction is subject to regulatory approvals.

The primary subsidiary International Transportation & Marine Agency, LLC. (ITMA) provides marine and other specialty lines of insurance. ITMA, which will write business into Syndicate 2001, specialises in light commercial trucking and offers coverage for auto physical damage and motor truck cargo products unbundled from the auto liability exposure. ITMA partners with appointed producers, at both the wholesale and retail levels, and all coverage is placed through A-Rated or better licensed insurance carriers.

This acquisition is part of MSI's strategy of expanding the scale and strengthening the profitability of its international business based on its Vision "to create a world-leading insurance and financial services group", and part of that is an aim to strengthen its presence in the United States.

The expectation is that this, and any future, acquisition will improve the Syndicate's (and therefore the Company's) access to profitable and diverse US MGA income.

Brexit

The UK left the EU on 31 January 2020, with a 'transition' period to the end of 2020 for negotiating a new trade deal between the UK and EU. This was completed and came into effect on 1 January 2021.

Having aligned our European business to the new Lloyd's Brussels subsidiary since 1 January 2019, we believe we have established the most effective foundation, to continue to support our clients throughout the UK and Europe with the same products and high level of service as we do today. This is considered to mitigate the uncertainty in place as to the final terms of the UK's new relationship with the EU for financial services.

On 30 December 2020, the Lloyd's mandated market wide Part VII transfer of historical, open EEA policies and claims, to the Lloyd's subsidiary in Brussels, was completed. Further details on this transfer can be found in note 11(a). By utilising this structure, MS Amlin and Lloyd's has a platform for which there will be no restrictions on servicing any policies, especially for those clients with multi-jurisdictional polices, that span either individual EU states or the UK, mitigating the loss of EU passporting rights. This allows MS Amlin to continue to support our clients throughout the UK and Europe to the same high standard as pre-Brexit.

Climate Change

The Boards of the Company and the managing agent have taken note of future requirements for climate related financial disclosures as set by the Bank of England (through the Prudential Regulation Authority) in various announcements and consultation processes. This also applies to the Task Force on Climate-related Financial Disclosures. The Company's Board works collaboratively with the Board of MSAUL on matters related to Climate Change.

The Board has overall responsibility for strategy, performance and risk management and only through careful management in each of these areas of our business can we achieve our strategic objectives and manage the risks and opportunities arising from climate change. We are committed to making transparent, sustainable financial decisions and to actively managing the long term financial risks of climate change, in partnership with our customers as we transition together towards to a low carbon future.

Given the central role of the Board in setting strategy, performance targets and risk appetite in relation to climate risks, a project team has been established to assess and develop capabilities to deliver our future requirements over the medium term. The Board also appointed a dedicated executive responsible for climate change. The MS AUL Strategy & Transformation Director represents MS Amlin on the ClimateWise Insurance Advisory Council, is Chairman of the newly formed Climate Change Forum and is the named executive with regulatory responsibility for climate change.

In addition, MS Amlin has been a signatory to the ClimateWise initiative since its inception in 2007. Our membership offers us a platform to collaborate and actively contribute towards the insurance industry's response, identifying new ways and approaches to confront climate change challenges. The most recent MS Amlin ClimateWise report is available via www.msamlin.com.

Going concern

The Syndicate has financial resources to meet its financial needs and manages a mature portfolio of insurance risk through an experienced team. The managing agent believes that the Syndicate is well positioned to manage its business risks successfully in the current economic environment. The managing agent has continued to review the business plans, liquidity and operational resilience of the Syndicate, particularly in light of the risks associated with COVID-19. In considering the potential of COVID-19 to impact the conclusion of this assessment the directors have had regard to changes in income and expenditure, including impacts arising from the effect of COVID-19 on related businesses, under reasonably plausible severe scenarios.

There is no intention to liquidate the Syndicate or to cease its operations. The 2021 year of account of Syndicate 2001 has opened and the managing agent has concluded that the Syndicate has sufficient resources to, and a reasonable expectation that it will, open a 2022 year of account.

In evaluating the appropriateness of the use of the going concern assumption in preparing these financial statements, the Board has reviewed the Company's cash flow, available capital facilities, strategic initiatives, regulatory capital projections and the future profitability of it and the Syndicate for a period of at least 12 months from the date of approval of these financial statements, including considering the potential impacts arising the reasonably plausible severe scenarios that may arise during that period. In respect of COVID-19, there is a risk that legislative, regulatory, judicial or social influences may extend coverage beyond our intended contractual obligations or result in an increase in the frequency or severity of claims beyond expected levels.

In considering the potential impact the conclusion of this assessment the directors have had regard to changes in income and expenditure, under reasonably plausible severe scenarios. In the event one of these scenarios reduced available capital to the extent that a contraction of underwriting capacity was required this would reduce the volume of underwriting activity in the Syndicate and the Company, however the Company would be able to continue trading as a corporate member without interruption of its core business processes. Necessary services provided by related businesses would also continue under this scenario.

The Company's forecasts show that the Company should be able to continue to meet Lloyd's underwriting capital requirements. The Company is also expected to have sufficient cash on hand to pay expenses as they become due. After performing this assessment, the directors have a reasonable expectation that the Company has access to adequate resources to continue in operation.

Accordingly, the directors continue to adopt the going concern basis in preparing the annual report and financial statements.

Section 172 Statement

The Companies Act 2006 has been updated to include a new statutory reporting requirement for financial reporting years beginning on or after 1 January 2019. As a result, the directors of the Company are required to give an annual statement which describes how the directors have had regard to the matters set out in section 172(1) of the Companies Act 2006 when discharging their duty under that section.

Under section 172 of the Companies Act 2006, the directors of a Company must act in the way that they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole. In doing so, they should have regard to other factors, including but not limited to: (a) the likely consequences of any decision in the long term; (b) the need to foster the Company's business relationships with suppliers, customers and others; (c) the impact of the Company's operations on the community and the environment; (d) the desirability of the Company maintaining a reputation for high standards of business conduct; and (e) the need to act fairly as between members of the Company.

The directors of the Company are fully aware of their responsibilities to promote the success of the Company in accordance with section 172 of the Companies Act 2006. Management ensure that the Board are assisted in considering key stakeholders as part of the process for setting strategy and making decisions by considering relevant stakeholder considerations as appropriate, for inclusion in board papers and in the information provided to the Board before Board meetings. The directors understand stakeholders needs when making decisions by ensuring rigorous forecasts are undertaken before key decisions are made and any potential issues are resolved.

The directors acknowledge that effective and meaningful engagement with stakeholders and the positive performance against the Company's KPIs were key to promoting the success of the Company. Given the activities of the Company (and the fact that it has no employees), our key stakeholders are identified as Mitsui Sumitomo Insurance Company, Limited (the Sole Shareholder); our suppliers; the community; and the environment. The following paragraphs explain how they were considered in principal financial decisions during 2019:

- LOC Facility – during the year and to the date of this report, the directors took various steps to ensure there were adequate LOC facilities in place to meet the Company's capital requirements. In the event of a stressed scenario the Company will still be able to meet its financial obligations as they fall due and uphold the requirements of all its key stakeholders.
- The majority of employees are employed by MS Amlin Corporate Services Ltd (MS ACS). MS Amlin's ambition is that all employees consider that they are working in an environment that encourages teamwork, is inclusive of diversity and allows them to thrive. The Company encourages regular communication through a combination of channels as well as offering opportunities for employee development and training.
- The Board's intention, shared with the Board of MSAUL, is that the Company and its operations are carried out with high standards of conduct and governance. A whistleblowing policy is in place, and training has been carried out, which ensures that employees are empowered to raise concerns in confidence without fear of unfair treatment.
- We aim to act as fairly as possible between stakeholders, but note that the company has a sole shareholder.

Approved by the Board and signed by order of the Board.

DocuSigned by:
Johan Garth Slabbert
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J G Slabbert
Director
19 May 2021

Directors' Report

The directors present their report and the audited financial statements for the year ended 31 December 2020. Principal risk management objectives are disclosed in the Strategic report under principal risks, uncertainties and financial risk management on page 5.

Performance

The loss after tax of the Company for the financial year ended 31 December 2020 amounted to £170.9 million (2019: profit after tax of £5.8 million), full details of which are set out in the statement of profit or loss on page 14 and the related notes.

Directors

The current directors of the Company are shown on page 2. During the year and up to the date of signing, the following changes to the Board of Directors have occurred:

Name	Date of appointment	Date of resignation
T C Clementi		4 December 2020
J G Slabbert	10 February 2021	
S Watabe	4 September 2020	

Directors' indemnity

MS Amlin Limited had previously made a qualifying third-party indemnity provision for the benefit of the directors of the Company, up to 31 March 2020. Since 1 April 2020, MS Amlin Corporate Services Limited has made a qualifying third-party indemnity provision for the benefit of the directors of the Company and these remain in force at the date of this report.

Dividends

No dividend was paid or declared during the year (2019: £nil).

Political donations

During the year the Company made no political donations (2019: none).

Streamlined Energy and Carbon Reporting

For financial years beginning on or after 1 April 2019, the Companies Act 2006 requires large companies to report their UK energy use and associated greenhouse gas emissions as a minimum relating to gas, electricity and transport fuel, as well as an intensity ratio and information relating to energy efficiency action. The purpose of this reporting disclosure is to standardise emission reporting and make this information readily available to investors and other stakeholders to inform their choices, ensure compliance with Government targets and assist in meeting UK's net zero target by 2050.

The requirement includes disclosure of the following:

- Scope 1 emissions – combustion and direct emissions (i.e. all direct greenhouse gas emissions);
- Scope 2 location based emissions – indirect greenhouse gas emissions from consumption of purchased electricity, heat or steam;
- Scope 3 emissions (voluntary) – other indirect greenhouse gas emissions (e.g. extraction and production of purchased materials, outsourced activities, waste disposal);
- At least one intensity ratio e.g. tonnes of CO2 per unit of output; and
- Energy efficiency actions taken

From an MS Amlin consolidated UK entity viewpoint, details of the emissions during the reporting period were as follows:

Requirement	(MT CO2e)
Scope 1 emissions	220.94
Scope 2 location based emissions	529.06
Scope 3 emissions (voluntary)	773.16
Scope 1, 2 and 3 intensity FTE/CO2e	0.94

The Board has overall responsibility for strategy, performance and risk management and only through careful management in each of these areas of our business can we achieve our strategic objectives and manage the risks and opportunities arising from climate change. We are committed to making transparent, sustainable financial decisions and to actively managing the long term financial risks of climate change, in partnership with our customers as we transition together towards to a low carbon future.

Actions taken include MS Amlin becoming a signatory to the ClimateWise initiative since its inception in 2007. Our membership offers us a platform to collaborate and actively contribute towards the insurance industry's response, identifying new ways and approaches to confront climate change challenges. The most recent MS Amlin ClimateWise report is available via www.msamlin.com.

Directors' Report (continued)

Events after the reporting period

Other than the below, there have been no significant events between the reporting date and the date these financial statements were authorised.

COVID-19
On 15 January 2021, the UK Supreme Count delivered its ruling on the test business interruption case brought by the Financial Conduct Authority for the impacts of the COVID-19 on certain policy wordings. The impacts of this ruling has been determined as an adjusting post balance sheet event by management and included in setting the best estimate reserves as at 31 December 2020. Further detail can be found in the Strategic report and note 15(k).

Due to the run off of P&C UK business, it is not expected that the third lockdown in the UK will have a material impact on COVID-19 claims reserves.

Winter Storm Uri (Texas, USA)

Management has been following the development of loss exposures to winter storm Uri in Texas, USA during February 2021. As the event occurred after the balance sheet date, no adjustment has been made to the result presented in these accounts. Given the nature of the event, claims are expected from both Specialty lines and reinsurance exposures. At the date of this report, based upon market loss estimates, the loss estimate represents a greater proportion of Catastrophe losses than are planned to be incurred within the first quarter. However, the estimate is below the expected 2021 catastrophe budget and is therefore has the potential to impact 2021 profit, but is considered unlikely to impact capital at this stage.

Disclosure of information to auditor

Each of the persons who is a director at the date of approval of this report confirms that:

(1) so far as he is aware, there is no relevant audit information of which the Company's auditor is unaware; and

(2) he has taken all the steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Independent auditor

In accordance with Section 487 of the Companies Act 2006, the auditor will be deemed reappointed and KPMG LLP will therefore continue in office.

Approved by the Board and signed by order of the Board.

DocuSigned by:
Johan Garth Slabbert
375B9CAEE319494...
J G Slabbert
Director
19 May 2021

Statement of directors' responsibilities

The directors are responsible for preparing the Strategic report, the Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 *Reduced Disclosure Framework*.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Report of independent auditor to the member of MS Amlin Corporate Member Limited

Opinion

We have audited the financial statements of MS Amlin Corporate Member Limited (the 'Company') for the year ended 31 December 2020 which comprise the Statement of Profit or Loss, Statement of Financial Position, Statement of Changes in Equity, Statement of Oher Comprehensive Income and related notes, including the accounting policies in note 5.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2020 and of its loss for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Going concern

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

In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for the going concern period.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the company will continue in operation.

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures at the Company included:

- Enquiring of directors, the audit committee, internal audit, compliance, legal and risk and inspection of policy documentation as to the Company's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Company's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board, audit committee and risk and solvency committee minutes.
- Considering remuneration incentive schemes and performance targets for management and directors.
- Using analytical procedures to identify any usual or unexpected relationships.
- Using our own forensic specialists to assist us in identifying fraud risks based on discussions of the circumstances of the Company.

Report of independent auditor to the member of MS Amlin Corporate Member Limited (continued)

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit. As required by auditing standards, and taking into account possible pressures to meet profit targets and our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries, and the risk of bias in accounting estimates and judgements such as the valuation of claims outstanding, valuation of level 3 investments, valuation of pension liabilities and recoverability of deferred tax. We did not identify any additional fraud risks. We performed procedures including:

- Identifying journal entries and other adjustments to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted by senior management, duplicate entries, unbalanced journals, journals posted without a user identity, those posted to accounts linked to an accounting estimate and those posted with unusual descriptions; and
- Assessing significant accounting estimates for bias.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the Company financial statements from our general commercial and sector experience and through discussion with the directors and other management (as required by auditing standards), and from inspection of the Company's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

As the Company is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the Company's financial statements varies considerably.

Firstly, the Company is subject to laws and regulations that directly affect the Company's financial statements including financial reporting legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related Company's financial statements items.

Secondly, the Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the Company's financial statements, for instance through the imposition of fines or litigation or the loss of the Company's capacity to operate. We identified the following areas as those most likely to have such an effect: regulatory capital, conduct and financial crime recognising the financial and regulated nature of the Company's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the Company's financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the Company's financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Report of independent auditor to the member of MS Amlin Corporate Member Limited (continued)

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 10, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

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

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

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

DocuSigned by:

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Timothy Butchart (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London, E14 5GL

Date: 19-05-2021

Financial statements
Statement of profit or loss
For the year ended 31 December 2020

Technical account – general business	Note	2020 £m	2019 £m
Earned premiums, net of reinsurance			
Gross written premiums	7	1,370.0	2,084.5
Outward reinsurance premiums		(394.2)	(535.8)
Net written premiums		**975.8**	**1,548.7**
Change in the provision for unearned premiums			
Gross amount	15(c)	357.0	165.1
Reinsurers' share	15(c)	(50.9)	(29.2)
Change in the net provision for unearned premiums	15(c)	**306.1**	**135.9**
Earned premiums, net of reinsurance		**1,281.9**	**1,684.6**
Allocated investment return transferred from the non-technical account		60.6	114.8
Claims incurred, net of reinsurance			
Claims paid:			
Gross amount	15(a)	(1,333.2)	(1,424.8)
Reinsurers' share	15(a)	399.2	476.7
Net claims paid	15(a)	**(934.0)**	**(948.1)**
Change in the provision for claims:			
Gross amount	15(a)	(32.9)	11.0
Reinsurers' share	15(a)	(4.1)	(164.0)
Change in the net provision for claims	15(a)	**(37.0)**	**(153.0)**
Claims incurred, net of reinsurance	15(a)	**(971.0)**	**(1,101.1)**
Net operating expenses	8	(553.7)	(686.9)
Balance on the technical account for general business		**(182.2)**	**11.4**

Non-technical account – general business	Note	2020 £m	2019 £m
Balance on the general business technical account		(182.2)	11.4
Investment income	11	37.3	44.3
Gains on the realisation of investments	11	2.9	1.4
Unrealised gains on investments	11	23.5	69.6
Investment expenses and charges	11	(3.1)	(0.5)
Allocated investment return transferred to general business technical account		(60.6)	(114.8)
(Loss)/profit on ordinary activities before tax		**(182.2)**	**11.4**
Tax credit/(charge) on loss on ordinary activities	12	11.2	(5.6)
(Loss)/profit for the financial year		**(171.0)**	**5.8**

The accompanying notes on pages 18 to 59 form part of these accounts

Statement of other comprehensive income
For the year ended 31 December 2020

	Note	2020 £m	2019 £m
(Loss)profit for the financial year		**(171.0)**	5.8
Other comprehensive (expense)/income:			
Items that will not be reclassified to profit or loss			
Actuarial (losses)/gains on pension liabilities	18	**(15.3)**	2.0
Deferred tax credit/(charge) on actuarial (losses)/gains	12	**3.0**	(0.5)
Other comprehensive (expense)/income for the year, net of tax		**(12.3)**	**1.5**
Total comprehensive (loss)/profit for the year		**(183.3)**	**7.3**

The accompanying notes on pages 18 to 59 form part of these accounts.

Statement of changes in equity
For the year ended 31 December 2020

	Called-up share capital £m	Share premium reserve £m	Other reserves £m	Retained earnings £m	Total equity £m
Balance as at 1 January 2020	**1.7**	**-**	**(7.7)**	**597.2**	**591.2**
Profit for the financial year	-	-	-	(171.0)	(171.0)
Other comprehensive income for the year	-	-	(12.3)	-	(12.3)
Balance as at 31 December 2020	**1.7**	**-**	**(20.0)**	**426.2**	**407.9**

	Called-up share capital £m	Share premium reserve £m	Other reserves £m	Retained earnings £m	Total equity £m
Balance as at 1 January 2019	**1.7**	**-**	**(9.2)**	**(237.2)**	**(244.7)**
Loss for the financial year	-	-	-	5.8	5.8
Other comprehensive income for the year	-	-	1.5	-	1.5
Shares issued	-	828.6	-	-	828.6
Capital reduction	-	(828.6)	-	828.6	-
Balance as at 31 December 2019	**1.7**	**-**	**(7.7)**	**597.2**	**591.2**

The accompanying notes on pages 18 to 59 form part of these accounts

Statement of financial position
For the year ended 31 December 2020

	Note	2020 £m	2019 £m
Intangible assets	16	63.2	63.2
Investments			
Financial investments	14(b)	2,412.8	2,644.8
Reinsurers' share of technical provisions			
Provision for unearned premiums	15(c)	128.0	178.9
Claims outstanding	15(a)	987.3	1,007.1
		1,115.3	**1,186.0**
Debtors			
Debtors arising out of direct insurance operations	15(e)	500.6	624.3
Debtors arising out of reinsurance operations	15(e)	698.0	733.1
Other debtors	14(c)	136.6	125.5
		1,335.2	**1,482.9**
Other assets			
Cash at bank and in hand	14(a)	156.3	105.1
Prepayments and accrued income			
Deferred acquisition costs	15(d)	191.0	282.5
Other prepayments and accrued income		58.1	31.4
		249.1	**313.9**
Total assets		**5,331.9**	**5,795.9**
Capital and reserves			
Called up share capital	19	1.7	1.7
Other reserves		(20.0)	(7.7)
Retained earnings		426.2	597.2
Total equity		**407.9**	**591.2**
Technical provisions			
Provision for unearned premiums	15(c)	812.2	1,169.1
Claims outstanding	15(a)	3,340.2	3,345.9
		4,152.4	**4,515.0**
Creditors			
Creditors arising out of direct insurance operations	15(f)	157.0	217.3
Creditors arising out of reinsurance operations	15(f)	361.1	287.4
Other creditors including taxation	14(c)	228.4	180.2
		746.5	**684.9**
Total equity and liabilities excluding pension liability		**5,306.8**	**5,791.1**
Pension deficit		25.1	4.8
Total equity and liabilities		**5,331.9**	**5,795.9**

The accompanying notes on pages 18 to 59 form part of these accounts

The financial statements on pages 14 to 17 were approved and authorised for issue by the Board of Directors of MS Amlin Corporate Member Limited and signed on its behalf by:

DocuSigned by:
Phil Green
51856182089B438...
P J Green
Director
19 May 2021

Notes to the financial statements For the year ended 31 December 2020

1. General information

The Company is a private company limited by shares and is incorporated and domiciled in England. The address of its registered office is The Leadenhall Building, 122 Leadenhall Street, London, EC3V 4AG.

2. Basis of preparation

The financial statements have been prepared under the provisions of the Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008, in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101) and in accordance with applicable accounting standards.

The financial statements have been prepared on the going concern basis under the historical cost convention as modified by the revaluation of financial assets and financial liabilities, measured at their fair value through the profit or loss, and in accordance with FRS 101 and with the Companies Act 2006.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of international accounting standards in conformity with the requirements of the Companies Act 2006, but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

The following FRS 101 exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- The requirement in IAS 1 Presentation of Financial Statements to present comparative information in respect of Share capital, Intangible Assets and Property, Plant and Equipment.
- The requirement to present an additional balance sheet for the beginning of the earliest comparative period following a retrospective change in accounting policy, the correction of an error or the reclassification of items in the financial statements.
- The requirements of IAS 7 to disclose a Statement of Cash Flows and related notes.
- The requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors relating to the effects of new accounting standards which have been issued but which have not been applied in the period.
- The requirements of IAS 24 Related Party Disclosures in respect of the compensation of key management personnel.
- The requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more wholly owned members of a group.
- Certain disclosures required by IAS 36 Impairment of Assets in respect of the impairment of indefinite life intangible assets.
- Certain disclosures required by IFRS 15 Revenue from Contracts with Customers.

Except where otherwise stated, all figures included in the financial statements are presented in millions of British Pounds Sterling (GBP) shown as £m rounded to the nearest £100,000.

Going concern

The Syndicate has financial resources to meet its financial needs and manages a mature portfolio of insurance risk through an experienced team. The managing agent believes that the Syndicate is well positioned to manage its business risks successfully in the current economic environment. The managing agent has continued to review the business plans, liquidity and operational resilience of the Syndicate, particularly in light of the risks associated with COVID-19. In considering the potential of COVID-19 to impact the conclusion of this assessment the directors have had regard to changes in income and expenditure, including impacts arising from the effect of COVID-19 on related businesses, under reasonably plausible severe scenarios.

There is no intention to liquidate the Syndicate or to cease its operations. The 2021 year of account of Syndicate 2001 has opened and the managing agent has concluded that the Syndicate has sufficient resources to, and a reasonable expectation that it will, open a 2022 year of account.

Notes to the financial statements
For the year ended 31 December 2020

2. Basis of preparation

Going concern (continued)

In evaluating the appropriateness of the use of the going concern assumption in preparing these financial statements, the Board has reviewed the Company's cash flow, available capital facilities, strategic initiatives, regulatory capital projections and the future profitability of it and the Syndicate for a period of at least 12 months from the date of approval of these financial statements, including considering the potential impacts arising the reasonably plausible severe scenarios that may arise during that period. In respect of COVID-19, there is a risk that legislative, regulatory, judicial or social influences may extend coverage beyond our intended contractual obligations or result in an increase in the frequency or severity of claims beyond expected levels.

In considering the potential impact the conclusion of this assessment the directors have had regard to changes in income and expenditure, under reasonably plausible severe scenarios. In the event one of these scenarios reduced available capital to the extent that a contraction of underwriting capacity was required this would reduce the volume of underwriting activity in the Syndicate and the Company, however the Company would be able to continue trading as a corporate member without interruption of its core business processes. Necessary services provided by related businesses would also continue under this scenario.

The Company's forecasts show that the Company should be able to continue to meet Lloyd's underwriting capital requirements. The Company is also expected to have sufficient cash on hand to pay expenses as they become due. After performing this assessment, the directors have a reasonable expectation that the Company has access to adequate resources to continue in operation.

Accordingly, the directors continue to adopt the going concern basis in preparing the annual report and financial statements.

3. Adoption of new and revised standards

A number of new amendments of published standards and interpretations are effective from 1 January 2020 but they do not have a material effect on the Company's financial statements.

Standards, amendments to published standards and interpretations that have been deferred

IFRS 4 Insurance Contracts provides certain options in respect of IFRS 9 Financial Instruments - the Company has taken the temporary exemption to defer the application of IFRS 9 Financial Instruments until IFRS 17 Insurance Contracts is applied from 1 January 2023. The Company qualified to apply the temporary exemption as its percentage of insurance liabilities exceeded 90% of its total liabilities. The Company is, however, required to make certain disclosures. These are set out in note 14i.

When adopted, IFRS 9 will have an effect on the Company's financial assets in respect of:

- classification and measurement;
- impairment; and
- hedging

IFRS 9 will be implemented in conjunction with the Company's implementation of IFRS 17, which is expected to be effective from 1 January 2023. The impact on the Company's financial assets is not expected to be significant as most financial assets are already measured at fair value through profit or loss and the Company does not use hedge accounting. The main area of impact will be driven by the new impairment requirements but this is not expected to be significant for the Company.

Notes to the financial statements
For the year ended 31 December 2020

4. Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed below. The preparation of financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates.

Critical accounting judgement	Nature of judgement	Section
Product classification	Assessment of the significance of insurance risk passed	4.1

Significant accounting estimates	Note
Estimation of insurance contract liabilities	4.2
Estimation of insurance contract premium	4.3
Financial assets and liabilities	4.4
Intangible assets	4.5
Retirement benefit obligations	4.6

4.1 Product classification

Insurance contracts are defined as those containing significant insurance risk if, and only if, an insured event could cause an insurer to make significant additional payments in any scenario, excluding scenarios that lack commercial substance, at the inception of the contract.

Contracts entered into by the Company with reinsurers under which the Company is compensated for losses on contracts issued by the Company and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held. Insurance contracts underwritten by the Company under which the contract holder is another insurer (inwards reinsurance) are included within insurance contracts.

Based on the current assessment, all of the products underwritten by the Company are insurance contracts within the scope of IFRS 4.

4.2 Estimation of insurance contract liabilities

The most significant estimate made in the financial statements relates to unpaid insurance claim reserves and related loss adjustment expenses of the Company. The methods, assumptions and estimates used by the Company to estimate the insurance contract liabilities are described in note 15(m).

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

Details of the Company's outstanding claims reserves and claims development are given in note 15.

4.3 Estimation of insurance contract premium

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

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

The calculation of estimated premium income is inherently subjective and attained through a combination of underwriters' best estimates at a policy level and actuarial techniques at a portfolio level, based on observable historical trends. These estimates are reviewed on a quarterly basis by underwriters and independently assessed by the actuarial and finance teams. The estimation of earned premium uses judgement about the profile of risk over the coverage period of (re)insurance contracts.

Notes to the financial statements
For the year ended 31 December 2020

4. Critical accounting judgements and key sources of estimation uncertainty (Continued)

4.4 Financial assets and financial liabilities

The Company uses pricing vendor sources in determining the fair value of financial assets and financial liabilities. Depending on the methods and assumptions used (for example, in the fair valuation of Level 2 and Level 3 financial assets), the fair valuation of financial assets and financial liabilities can be subject to estimation uncertainty. Details of these methods and assumptions are described in note 14.

4.5 Intangible assets

Intangible assets are recognised on the acquisition of syndicate capacity.

The value of intangible assets arising from the acquisition of syndicate capacity or on the purchase of renewal rights is largely based on the expected cash flows of the business acquired and contractual rights on that business.

The assumptions made by management on initial recognition and valuation of intangible assets, together with the performance of impairment tests, are subject to estimation uncertainty. The results of the impairment test may result in the value of the intangible being impaired in the current period.

4.6 Retirement benefit obligations

The Lloyd's Superannuation Fund is a multi-employer defined benefit scheme established for companies in the Lloyd's market. Since 2014, MS Amlin has been the only market participant remaining as an active employer in the scheme. Note 18 provides further details on the Company's retirement benefit obligations.

The amounts included in these financial statements are sensitive to changes in the assumptions used to derive the value of the scheme's assets and liabilities.

5. Significant accounting policies

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

5.1 Insurance contracts premiums

Gross written premiums comprise premiums on insurance contracts incepting during the financial year together with adjustments to premium written in previous accounting years. The estimated premium income in respect of facility contracts, for example binding authorities and line slips are deemed to be written in full at the inception of the contract.

Premiums are disclosed before the deduction of brokerage and exclude taxes or duties levied on them. Estimates are included for premiums receivable after the period end but not yet notified. Outward reinsurance premium is accounted for in the same accounting period as the related insurance or inward reinsurance business.

Premium is recognised as earned over the policy contract period. The earned element is calculated on a basis where the premium is apportioned over the period of risk. For premium written under facilities, the earned element is calculated based on the estimated inception date and coverage period of the underlying contracts.

The estimation of earned premium uses judgement about the profile of risk over the coverage period of (re)insurance contracts and reflects the seasonal nature of certain classes of business. This more closely aligns the earning of premium with the seasonal basis of reserving claims.

The proportion of premiums written, gross of commission payable, attributable to periods after the balance sheet date is deferred as a provision for unearned premiums. The change in this provision is taken to the income statement in order that revenue is recognised over the period of the risk.

5.2 Acquisition costs

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

Notes to the financial statements
For the year ended 31 December 2020

5. Significant accounting policies (continued)

5.3 Reinsurance premiums ceded

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

5.4 Underwriting business

The technical account – general business set out on page 14 has been prepared by aggregating the Company's share of the underwriting transactions (premiums, claims, reinsurance and expenses) of the Lloyd's syndicate of which the Company is a sole member. The Company's share of the underwriting transactions is presented on an annual accounting basis under which insurance profits or losses are recognised as they are earned.

5.5 Insurance contracts liabilities: claims

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

Claims reserves are estimated on an undiscounted basis. Provisions are subject to a detailed quarterly review where forecast future cash flows and existing amounts provided are reviewed and reassessed.

Any changes to the amounts held are adjusted through the statement of profit or loss. Provisions are established above an actuarial best estimate as an additional degree of caution.

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

The unpaid claims reserves also includes, where necessary, a reserve for unexpired risks where, at the reporting date, the estimated costs of future claims and related deferred acquisition costs are expected to exceed the unearned premiums provision. In determining the need for an unexpired risk provision the strategic business units within the Company have been regarded as groups of business that are managed together.

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

Although the claims provision is considered to be reasonable, having regard to previous claims experience (including the use of certain statistically based projections) and case by case reviews of notified losses, on the basis of information available at the date of determining the provision, the ultimate liabilities will vary as a result of subsequent information and events. These adjustments are reflected in the financial statements for the period in which the related adjustments are made.

5.6 Reinsurance recoveries

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

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

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

5.7 Intangible assets

Intangible assets are recognised on the acquisition of syndicate capacity, initially at cost. They are considered to have an indefinite useful life are not subject to amortisation. Impairment tests are carried out annually or more frequently if events or changes in circumstances indicate a potential impairment.

Notes to the financial statements
For the year ended 31 December 2020

5. Significant accounting policies (continued)

5.8 Financial assets

The Company's financial assets are classified at fair value through profit or loss (FVPL). This classification requires all fair value changes to be recognised immediately within the investment return line in the statement of profit or loss.

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

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

Purchases and sales of investments are recognised on the trade date, which is the date the Company commits to purchase or sell the assets. These are initially recognised at fair value, and are subsequently re-measured at fair value based on quoted bid prices. Transaction costs are recognised directly in the statement of profit or loss when incurred. Changes in the fair value of investments are included in the statement of profit or loss in the year in which they arise. The uncertainty around valuation is discussed further in note 14.

5.9 Derivative financial instruments

Derivative financial instruments primarily include currency forwards. Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into. They are subsequently measured at fair value, with their fair values obtained from quoted market prices or, where these are not available, by using valuation techniques such as discounted cash flow models or option pricing models. Changes in the fair value of derivative instruments are recognised immediately in the statement of profit or loss. Changes in the fair value of derivatives held to hedge against unmatched foreign exchange exposure are included within other operating expenses where they offset foreign exchange gains and losses.

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

5.10 Investment return

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

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

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

5.11 Taxation

Income tax expense represents the sum of the current tax payable and deferred tax. The current tax is based on taxable profit for the year. Taxable profit differs from net loss as reported in the statement of profit or loss because it excludes items of income or expense that are taxable or deductible in other years or that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Notes to the financial statements For the year ended 31 December 2020

5. Significant accounting policies (continued)

5.11 Taxation (continued)

Deferred tax is calculated at the substantively enacted tax rates that are expected to apply in the year when the liability is settled or the asset is realised. Deferred tax is charged or credited to the statement of profit or loss, except when it relates to items charged or credited directly to other comprehensive income or equity, in which case the deferred tax is also charged or credited directly to other comprehensive income or equity respectively.

5.12 Foreign currencies

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

(a) Functional and presentation currency

Items included in the financial statements of the Company are measured in Pounds Sterling (£) which is the functional currency of the primary economic environment in which the Company operates. The financial statements are presented in 'Pounds Sterling'.

(b) Transactions and balances

Transactions denominated in foreign currencies are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities are translated at the rates of exchange at the reporting date. Non-monetary assets and liabilities are translated at the rate prevailing on the date in which the asset or liability first arose or, where such items are revalued, at the latest valuation date. Exchange differences are recognised within 'other operating expenses'.

5.13 Loans and receivables

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

5.14 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Company's financial statements in the year in which the dividends are declared by the Board.

5.15 Other payables

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

5.16 Retirement benefit obligations

The Lloyd's Superannuation Fund was a multi-employer defined benefit scheme established for companies in the Lloyd's market. Since 2014, MS Amlin has been the only market participant remaining as an active employer in the scheme, until the closure to future accrual on 30 November 2020 (See note 18).

Accordingly, MS Amlin assumes the assets and liabilities of the scheme. The defined benefit obligation and associated pension costs are calculated annually by independent actuaries using the projected unit credit method. This method sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final liability. The cost of providing these benefits is charged to the statement of profit or loss to spread the pension cost over the service lives of employees. Any re-measurements arising from the recognition and funding of the Company's pension obligations are recognised in other comprehensive income during the year in which they arise. While several MS Amlin entities have participated in the scheme, the underlying pension liabilities are primarily related to service performed in respect of activity associated with the Company.

The liability recognised in the statement of financial position in respect of defined benefit pension plans is the fair value of plan assets less the present value of the defined benefit obligation at the reporting date, together with adjustments for restrictions on the recognition of a defined benefit asset due to an asset ceiling and the deferred tax impact of the net pension deficit. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using discount rates set on the basis of the yield of high-quality debt instruments (AA rated or equivalent) issued by blue-chip companies, with maturities consistent with those of the defined benefit obligations. Pension contributions are charged to the statement of profit or loss when due.

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For the year ended 31 December 2020

6. Capital

The capital structure of the Company consists of equity attributable to owners of the Company, comprising issued capital, reserves and retained earnings as disclosed in the statement of changes in equity.

During the current and prior financial years, the Company complied with all external capital requirements to which it is subject.

The Company, through Syndicate 2001 (the 'Syndicate'), is required to hold regulatory capital in compliance with the prudential rules issued by the UK's Prudential Regulation Authority (PRA) and is also subject to Lloyd's capital requirements, including maintaining Funds in Syndicate (FIS). Under PRA rules, the Syndicate must hold capital in excess of the higher of two amounts. The first is the Minimum Capital Requirement (MCR), as prescribed by EU directives, calculated by applying fixed percentages to premium and claims and allowing for historic reinsurance recoveries.

For the final capital requirement, the Economic Capital Assessment (ECA), Lloyd's take the SCR and apply an uplift as buffer, currently at 35%. This is then subject to a minimum of 40% (2019: 40%) of the Syndicate's agreed premium capacity limit. At 31 December 2020, the agreed ECA as a percentage of the agreed underwriting capacity for the following underwriting year was 87.4% (2019: 81.7%). The Syndicate also benefits from mutualised capital within the Lloyd's Central Fund, for which a variable annual levy, for 2020 of 0.35% (2019: 0.35%) of Syndicate gross premium, is payable.

The liquidity coverage ratio is expected to be reviewed annually by Lloyd's and periodically by the PRA. The PRA expects management to apply their rules continuously. If a firm's capital falls below its ECA, steps must be taken to restore capital adequacy. Due to the nature of the Lloyd's capital setting process, ECA requirements are formally assessed and funded twice yearly at discrete periods and must be met for the Syndicate to continue underwriting.

At 31 December 2020, the Company funded the agreed FIS requirement of £699.3 million (2019: £593.1 million) to support underwriting for the 2021 underwriting year. The increase of £106.2 million is a result of net cash injected by the Company as part of the coming into line processes and investment returns on the invested assets.

The Company and MSI have provided off-balance sheet securities as additional capital to meet the ECA requirements. The Company provides letters of credit drawn from its facility with a syndicate of banks led by Barclays Bank plc. As at 31 December 2020, $326.5 million (£238.8 million) were pledged to Lloyd's in support of the Syndicate (2019: £nil).

MSI provides a mixture of Japanese corporate bonds and sterling letters of credit provided by a number of Japanese banks in support of the Syndicate. As at 31 December 2020, these were valued as £551.5 million and £165.0 million respectively (2019: £590.7 million and £165.0 million). The change in value is as a result of restructuring of maturing bonds, movements in market values as well as impacts of conversion to sterling.

The securities provided by MSI, were previously supplied through MSI Corporate Capital Limited as part of inter-availability arrangements due to that there previously was two syndicates in the Group. On 16 December 2020, the inter-availability arrangements were cancelled, and all securities are now provided through the Company.

The Company does not seek to retain any assets in excess of the Lloyd's capital requirement within the Lloyd's framework and any surplus is released from the Lloyd's framework and held as excess funds within the Company.

Notes to the financial statements
For the year ended 31 December 2020

7. Technical account analysis

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

2020	Gross written premiums £m	Gross earned premiums £m	Gross claims incurred £m	Net operating expenses £m	Reinsurance balance £m	Total £m	Net technical provisions £m	Commissions on gross premiums earned £m
Direct insurance								
Accident and health	28.5	30.0	(27.6)	(12.7)	1.3	(9.0)	63.2	(11.0)
Motor (third party liability)	6.3	8.9	(6.4)	(1.9)	1.4	2.0	24.6	(2.4)
Motor (other classes)	88.0	148.3	(98.4)	(43.6)	(2.3)	4.0	336.7	(35.8)
Marine, aviation and transport	191.1	221.6	(94.1)	(81.1)	(15.8)	30.6	413.5	(65.3)
Fire and other damage to property	272.2	351.4	(332.6)	(114.9)	10.4	(85.7)	599.8	(98.0)
Third party liability	155.9	238.9	(115.4)	(88.0)	(35.0)	0.5	442.5	(70.5)
Miscellaneous	33.6	28.7	(4.2)	(11.5)	(1.6)	11.4	56.9	(12.9)
	775.6	**1027.8**	**(678.7)**	**(353.7)**	**(41.6)**	**(46.2)**	**1,937.2**	**(295.9)**
Reinsurance	594.4	699.2	(687.4)	(197.4)	(8.4)	(194.0)	1,100.1	(88.9)
Total	**1,370.0**	**1,727.0**	**(1,366.1)**	**(551.1)**	**(50.0)**	**(240.2)**	**3,037.3**	**(384.8)**

2019	Gross written premiums £m	Gross earned premiums £m	Gross claims incurred £m	Net operating expenses £m	Reinsurance balance £m	Total £m	Net technical provisions £m	Commissions on gross premiums earned £m
Direct insurance								
Accident and health	44.4	51.3	(31.4)	(19.6)	(4.8)	(4.5)	80.7	(19.3)
Motor (third party liability)	23.0	24.4	(25.1)	(6.6)	(0.2)	(7.5)	42.1	(2.7)
Motor (other classes)	238.2	254.6	(160.2)	(79.3)	(15.8)	(0.7)	432.2	(45.2)
Marine, aviation and transport	202.1	240.8	(217.5)	(77.4)	25.1	(29.0)	364.9	(53.7)
Fire and other damage to property	382.4	384.9	(315.5)	(138.1)	1.1	(67.6)	575.5	(103.3)
Third party liability	312.6	358.7	(230.7)	(124.9)	(31.8)	(28.7)	574.4	(107.9)
Miscellaneous	61.4	56.3	(18.6)	(22.1)	(9.7)	5.9	86.0	(14.5)
	1,264.1	1,371.0	(999.0)	(468.0)	(36.1)	(132.1)	2,155.8	(346.6)
Reinsurance	820.4	878.8	(414.8)	(218.9)	(216.4)	28.7	1,173.1	(169.4)
Total	2,084.5	2,249.8	(1,413.8)	(686.9)	(252.5)	(103.4)	3,328.9	(516.0)

All premiums are concluded in the UK.

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

	2020 £m	2019 £m
UK	290.6	600.6
European Union	131.3	180.0
USA	498.4	552.8
Other	449.7	751.1
Total	**1,370.0**	**2,084.5**

Notes to the financial statements
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8. Net operating expenses

	Note	2020 £m	2019 £m
Acquisition costs		296.6	465.1
Change in deferred acquisition costs	15(d)	90.3	42.0
Administrative expenses		192.7	210.6
Reinsurance commission and profit participation		(25.8)	(38.0)
Foreign exchange losses/(gains)		(0.1)	7.2
		553.7	**686.9**

	2020 £'000	2019 £'000
Administrative expenses include fees payable to the Company's auditor for:		
– Audit of the annual report for the Company	30.6	9.6
– Audit of the annual report for Syndicate 2001	756.5	804.9
– Other audit-related services	185.2	179.3

9. Staff numbers and costs

The Company employs 9 staff (2019: nil) as part of administration of the Syndicate, consistent with Lloyd's regulations. All other staff engaged in the administration of the Company and the Syndicate are employed by MS Amlin Corporate Services Limited, a fellow Group company. The following amounts were charged to the Company in respect of salary costs:

	2020 £m	2019 £m
Wages and salaries	45.5	54.4
Social security costs	5.1	6.9
Other pension costs	7.6	7.5
	58.2	**68.8**

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

10. Directors' emoluments

The directors are also directors or employees of other companies within the MS Amlin Group. The 2020 directors' emoluments disclosed below are based on an allocation of the total emoluments received by each director based on the qualifying services they provide to the Company. The directors received the following emoluments during the year:

	2020 £'000	2019 £'000
Executive and non-executive director's emoluments and fees	82	91
Amounts received under cash based long-term incentive schemes	-	8
Employer's contribution to pension schemes	-	2
Termination Benefits	27	38
	109	**139**

No payments were made to directors (2019: nil) in respect of defined benefit pension schemes and to one director (2019: one) in respect of defined contribution pension schemes. During the year, two directors were a member of long-term incentive schemes (2019: one).

Notes to the financial statements
For the year ended 31 December 2020

11. Investment return

	2020 £m	2019 £m
Interest income on cash and cash equivalents	1.7	4.5
Interest income on overseas deposits	2.4	-
Income from financial assets at fair value through profit and loss	33.2	39.8
Investment income	**37.3**	**44.3**
Net realised (losses)/gains on financial assets measured at fair value through profit or loss	2.9	1.4
Net unrealised gains on financial assets measured at fair value through profit or loss	23.5	69.6
Investment expenses and charges	(3.1)	(0.5)
Total investment return	**60.6**	**114.8**

12. Tax on profit on ordinary activities

a) Analysis of the tax (credit)/charge in the year

	2020 £m	2019 £m
Current tax:		
Adjustment in respect of prior years	-	(2.6)
Foreign tax	1.8	0.6
Total current tax	**1.8**	**(2.0)**
Deferred tax:		
Origination and reversal of temporary differences	-	7.6
Adjustment in respect of prior years	(13.0)	-
Total deferred tax	**(13.0)**	**7.6**
Tax (credit)/charge on ordinary activities	**(11.2)**	**5.6**

Tax included in other comprehensive income

	2020 £m	2019 £m
Deferred tax on defined benefit pension fund actuarial (losses)/gains	(2.5)	0.5
Taxes (credited)/charged to other comprehensive income	**(2.5)**	**0.5**

Notes to the financial statements
For the year ended 31 December 2020

12. Tax on profit on ordinary activities (continued)

b) Factors affecting tax charge for the year

Reconciliation of tax charge:

The tax expense for the period is higher (2019: higher) than the standard rate of corporation tax in the UK for the year ended 31 December 2020 of 19.0% (2019: 19.0%). The differences are explained below:

	2020 £m	2019 £m
(Loss)/Profit on ordinary activities before taxation	**(182.2)**	**11.4**
(Loss)/Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 19% (2019: 19%)	**(34.6)**	**2.2**
Effects of:		
Expenses not deductible for tax purposes and other permanent differences	0.8	(10.7)
Tax losses for which no deferred tax asset has been recognised	33.8	16.1
Irrecoverable foreign tax	1.8	0.6
Adjustments in respect of prior years	(13.0)	(2.6)
Tax (credit)/charge on ordinary activities	**(11.2)**	**5.6**

c) Factors that may affect future tax charge

In the 3 March 2021 budget it was announced that the UK main rate of corporation tax will increase to 25% from April 2023. This new rate will be applied to the figures in the financial statements when the rate increase is substantially enacted.

Recognising deferred tax at the increased rate of 25% would result in an additional asset of £15.5 million.

The company has available tax loss carry forwards and losses on open years of account of £332.6 million (2019: £142.4 million) which it has not recognised.

d) Analysis of temporary differences on deferred tax

The deferred liability is attributable to temporary differences arising on the following:

	Note	2020 £m	2019 £m
Deferred tax asset		69.6	57.7
Deferred tax asset on the pension deficit	18(a)	4.8	0.8
Total		**74.4**	**58.5**
At 1 January		58.5	66.5
Deferred tax charge for the year		-	(7.6)
Adjustment in respect of prior years		13.0	-
Credits/(debits) included in statement of other comprehensive income		3.0	(0.4)
Other		(0.1)	-
At 31 December		**74.4**	**58.5**

Notes to the financial statements
For the year ended 31 December 2020

13. Foreign exchange risk

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

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

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

The table below presents the Company's balances by major base currency before the effect of any hedging instruments, and excludes the pension deficit (which is denominated in GBP). The amounts are stated in the Sterling equivalent of the local currency using the exchange rates as disclosed below:

	USD	EUR	CAD	AUD	JPY
2020	1.37	1.12	1.74	1.77	141.03
2019	1.33	1.18	1.72	1.89	144.1

	2020							
Currency risk	GBP £m	USD £m	EUR £m	CAD £m	AUD £m	JPY £m	Other £m	Total £m
Intangible assets	63.2	-	-	-	-	-	-	63.2
Financial investments	949.2	958.3	144.9	299.2	10.3	37.8	13.1	2,412.8
Reinsurers' share of technical provisions	264.6	727.7	85.7	37.3	-	-	-	1,115.3
Insurance and reinsurance receivables	213.4	879.0	58.7	22.4	20.9	(0.5)	4.7	1,198.6
Cash at bank	54.0	8.3	8.5	-	84.7	0.1	0.7	156.3
Other assets	182.8	163.6	10.8	9.6	8.4	0.6	9.9	385.7
Technical provisions	(973.5)	(2,321.7)	(266.9)	(209.3)	(167.9)	(35.3)	(177.8)	(4,152.4)
Insurance and reinsurance payables	(105.0)	(363.8)	(31.6)	(17.7)	-	-	-	(518.1)
Other creditors	(199.6)	(26.4)	(2.3)	(0.1)	-	-	-	(228.4)
Net assets	**449.1**	**25.0**	**7.8**	**141.4**	**(43.6)**	**2.7**	**(149.4)**	**433.0**

	2019							
Currency risk	GBP £m	USD £m	EUR £m	CAD £m	AUD £m	JPY £m	Other £m	Total £m
Intangible assets	63.2	-	-	-	-	-	-	63.2
Financial investments	1,008.6	1,131.6	133.2	294.0	19.9	45.2	12.3	2,644.8
Reinsurers' share of technical provisions	285.8	768.4	86.5	45.3	-	-	-	1,186.0
Insurance and reinsurance receivables	268.9	962.5	41.9	18.4	33.0	2.2	30.5	1,357.4
Cash at bank	21.3	3.6	(0.1)	-	79.9	0.1	0.3	105.1
Other assets	345.5	44.0	9.6	3.7	15.0	3.0	18.4	439.2
Technical provisions	(1,091.1)	(2,466.8)	(258.6)	(230.4)	(183.8)	(35.5)	(248.8)	(4,515.0)
Insurance and reinsurance payables	(139.0)	(328.5)	(26.3)	(10.9)	-	-	-	(504.7)
Other creditors	(168.7)	4.2	(11.2)	(3.8)	-	-	(0.5)	(180.0)
Net assets	**594.5**	**119.0**	**(25.0)**	**116.3**	**(36.0)**	**15.0**	**(187.8)**	**596.0**

Notes to the financial statements
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13. Foreign exchange risk (continued)

If the foreign currencies were to strengthen/weaken by 10% against Sterling, the movement in the monetary net assets and liabilities of the Company would result in the following gains/(losses) in the statement of profit or loss at 31 December 2020:

	31 December 2020		31 December 2019	
Currency	**10% strengthening of currency against £m**	**10% weakening of currency against £m**	10% strengthening of currency against £m	10% weakening of currency against £m
US Dollars	1.7	(1.4)	13.2	(10.8)
Canadian Dollars	15.7	(12.8)	12.9	(10.6)
Euro	0.8	(0.7)	(2.8)	2.3
	18.2	(14.9)	23.3	(19.1)

14. Financial assets and liabilities

a) **Cash at bank and in hand**

	2020 £m	2019 £m
Cash at bank and in hand	106.6	105.1

This asset represents cash at bank, short-term bank deposits and other short-term highly liquid investments that are subject to insignificant risk of changes in fair value.

b) **Net financial investments**

	At Valuation		At Cost	
	2020 £m	2019 £m	**2020 £m**	2019 £m
Financial assets at fair value through profit or loss				
Debt securities and other fixed income securities	888.3	1,090.4	937.9	1,121.5
Shares and other variable yield securities	4.5	5.4	7.7	7.7
Participation in investment pools	290.1	195.9	291.8	192.5
Holdings in collective investment schemes	1,199.5	1,012.7	1,088.4	980.1
Derivative financial instruments	6.4	-	-	-
Other investments	24.0	340.4	23.0	340.4
Total financial assets at fair value through profit or loss	2,412.8	2,644.8	2,348.8	2,642.2
Financial liabilities at fair value through profit or loss				
Derivative financial instruments	-	-	-	-
Net financial investments	2,412.8	2,644.8	2,348.8	2,642.2
Listed investments included above:				
Debt securities and other fixed income securities	888.3	1,090.4	937.9	1,121.5

Notes to the financial statements
For the year ended 31 December 2020

14. Financial assets and liabilities (continued)

b) Net financial investments (continued)

	At Valuation		At Cost	
	2020 £m	2019 £m	**2020 £m**	2019 £m
Financial investments				
In Company as Funds in Syndicate	699.3	593.1	578.7	507.9
In Syndicate	1,570.6	1,711.3	1,628.1	1,793.9
	2,269.9	**2,304.4**	**2,206.8**	**2,301.8**
Other financial investments				
In Syndicate	23.9	155.6	23.0	155.6
Other holdings	119.0	184.8	119.0	184.8
Total	**2,412.8**	**2,644.8**	**2,348.8**	**2,642.2**

Underwriting liabilities are matched by bonds, investment pools, collective investment schemes and cash. Other more volatile assets, including equities, represent capital. Included above are funds of £699.3 million (2019: £593.1 million) deposited by the Company and held as capital assets (FIS).

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

	2020 £m	**2019 £m**
At 1 January	2,644.8	2,695.5
Foreign exchange (losses)	1.5	(47.4)
Net (sales)/purchases	(261.6)	(73.6)
Net realised (losses)/gains on assets	(4.0)	(0.8)
Net unrealised gains on assets	32.1	71.1
At 31 December	**2,412.8**	**2,644.8**

c) Other debtors

	2020 £m	2019 £m
Amounts falling due within one year		
Amount receivable from other Group undertakings	13.1	5.6
Overseas tax recoverable	10.4	1.0
UK tax recoverable	-	14.5
Other debtors	18.8	37.9
	42.2	**59.0**
Amounts falling due after more than one year		
Amounts receivable from other Group undertakings	19.9	8.0
Deferred tax asset (note 12(d))	74.4	58.5
	94.3	**66.5**
Total	**136.6**	**125.5**

The debtor balances have been separated between those that fall due within one year and after more than one year, based on the timing of expected receipts. Amounts owed by group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

Notes to the financial statements
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14. Financial assets and liabilities (continued)

c) Other debtors (continued)

Included in amounts receivable from other Group companies falling due after more than one year, are two loans to MS Amlin Corporate Services Limited (MS ACS). One is for £14.4 million (2019: £14.4 million) and was part of arrangements for an escrow account held by MS ACS for the Lloyd's Superannuation Fund. The other loan of £5.5 million (2019: £13.4 million) was part of past funding of acquisition of related companies. Repayments occurred during the year following disposals of those related companies. The loan is on a recurring 1 year term, repayable after a 6 month notice period and charges interest at the Bank of England base rate plus 1%.

d) Other creditors including taxation

	2020 £m	2019 £m
Amounts falling due within one year		
Amount owed to MS Amlin Limited	-	0.4
Amounts owed to other Group undertakings	21.6	0.2
Other creditors	56.8	29.6
Total	**78.4**	**30.2**
Amounts falling due after one year		
Amount owed to MS Amlin Corporate Services Limited	150.0	150.0
Total	**228.4**	**180.2**

The creditor balances have been separated between those that fall due within one year and after more than one year, based on the contractual or agreed timing of settlements. The amounts falling due after one year relate to relate to a loan from MS ACS, which has a seven year term from 4 December 2019, and accrues interest at a fixed rate of 1.9%, paid in arrears biannually.

Amounts owed to other Group undertakings are unsecured, interest free, have no fixed date of repayment but are repayable on demand.

d) Fair value hierarchy

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

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities. An active market is one in which transactions for the assets occur with sufficient frequency and volume to provide readily and regularly available quoted prices.

Level 2: Inputs to a valuation model other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Inputs to a valuation model for the asset or liability that are not based on observable market data (unobservable inputs) and are significant to the overall fair value measurement. Unobservable inputs may have been used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date (or market information for the inputs to any valuation models). As such, unobservable inputs reflect the assumptions it is considered that market participants would use in pricing the asset.

There were no changes to the valuation techniques during the year.

Shares and other variable yield securities

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

Notes to the financial statements
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14. Financial assets and liabilities (Continued)

d) Fair value hierarchy (continued)

Debt and other fixed income securities

The fair value is based upon quotes from pricing services where available. These pricing services derive prices based on an average of quotes provided by brokers. Where multiple quotes are not available, the fair value is based upon evaluated pricing services, which typically use proprietary cash flow models and incorporate observable market inputs, such as credit spreads, benchmark quotes and other trade data. If such services do not provide coverage of the asset, then fair value is determined manually using indicative broker quotes, which are corroborated by recent market transactions in similar or identical assets.

Where there is an active market for these assets and their fair value is the unadjusted quoted market price, these are classified as Level 1. This is typically the case for government bonds. Level 1 also includes bond funds, where fair value is based upon quoted prices. Where the market is inactive or the price is adjusted, but significant market observable inputs having been used by the pricing sources, then these are considered to be Level 2. This is typically the case for government agency debt, corporate debt, mortgage and asset-backed securities and catastrophe bonds. Certain assets, for which prices or other market inputs are unobservable, are classified as Level 3.

Holdings in collective investment schemes

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

Participation in investment pools

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

Derivatives

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

Net financial investments by fair value grouping:

	2020				2019			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets held for trading at fair value through profit or loss								
Debt and other fixed income securities	522.9	365.4	-	888.3	869.0	221.4	-	1,090.4
Shares and other variable yield securities	-	-	4.5	4.5	-	-	5.4	5.4
Participation in investment pools	290.1	-	-	290.1	195.9	-	-	195.9
Holdings in collective investment schemes	-	1,016.5	183.0	1,199.5	1.9	824.5	186.3	1,012.7
Derivative financial instruments	-	6.4	-	6.4	-	-	-	-
Other	1.0	-	23.0	24.0	340.4	-	-	340.4
Net financial investments	**814.0**	**1,388.3**	**210.5**	**2,412.8**	**1,407.2**	**1,045.9**	**191.7**	**2,644.8**

The table on the previous page excludes the Company's holdings of cash and cash equivalents of £156.3 million (2019: £105.1 million). These are measured at fair value and are categorised as Level 1.

The table also excludes the Company's loans and receivables and other payables, included in notes 14(c) and 14(d) respectively, which are carried at amounts that approximate to the fair value and are categorised as level 2.

Notes to the financial statements
For the year ended 31 December 2020

14. Financial assets and liabilities (Continued)

d) Fair value hierarchy (continued)

The majority of the Company's investments are valued based on quoted market information or other observable market data. The Company holds 7.6% (2019: 7.2%) of its net financial investments at a fair value based on estimates and recorded as Level 3 investments. Level 3 investments in collective investment schemes are valued using net asset statements provided by independent third parties, and therefore no sensitivity analysis has been prepared. Where estimates are used, these are based on a combination of independent third party evidence and internally developed models, calibrated to market observable data where possible. While such valuations are sensitive to estimates, it is believed that changing one or more of the assumptions to reasonably plausible alternative assumptions might result in a higher or lower fair value measurement, though this is unlikely to be significant. Therefore, no sensitivity analysis has been prepared.

Transfers between levels of the fair value hierarchy

The Company's policy is to recognise transfers into and transfers out of fair value hierarchy levels at the end of the relevant reporting period during which the transfers are deemed to have occurred. There were two transfers during the year

- a transfer from Level 1 to Level 3, in relation to loans made to the Lloyd's Brussels subsidiary as part of its establishment. Valuation methodology guidance is under consultation within the Lloyd's market participants, but is expected to be determined using non-observable market data. The previous Level 1 classification was based on Lloyd's guidance, but the Company determined the Level 3 classification was more appropriate in the current period.
- a transfer from Level 1 to Level 2, in relation to holdings in the Toro Prism Trust held outside of the Syndicate by the Company, to align with the classification of similar investments.

There were no other transfers between the Levels (2019: no transfers). The table below analyses the movements in assets classified as Level 3 investments during 2020:

	Property funds £m	Unlisted equities £m	Lloyd's loans £m	Total £m
At 1 January 2020	**186.3**	**5.4**	-	**191.7**
Total net gains/(losses) recognised in investment return in profit or loss	5.9	(0.9)	-	5.0
Sales	(28.1)	-	-	(28.1)
Purchases	18.9	-	17.0	35.9
Transfers from Level 1	-	-	6.0	6.0
At 31 December 2020	**183.0**	**4.5**	**23.0**	**210.5**

Total net unrealised gain for the year recognised in investment return in profit or loss for assets and liabilities held at the end of the reporting year		(0.4)		

	Property funds £m	Unlisted equities £m	Lloyd's loans £m	Total £m
At 1 January 2019	**210.8**	**7.7**	-	**218.5**
Total net gains/(losses) recognised in investment return in profit or loss	5.3	(2.3)	-	3.0
Sales	(44.4)	-	-	(44.4)
Purchases	14.6	-	-	14.6
At 31 December 2019	**186.3**	**5.4**	-	**191.7**

Total net unrealised loss for the year recognised in investment return in profit or loss for assets and liabilities held at the end of the reporting year		**7.8**		

Notes to the financial statements
For the year ended 31 December 2020

14. Financial assets and liabilities (Continued)

e) Financial risk management

The following section describes the Company investment risk management from a quantitative and qualitative perspective.

The Company has two main categories of assets:

- Underwriting assets – premium received and held to meet future insurance claims.
- Capital assets – capital required by Lloyd's to support the underwriting business. These represent funds deposited by the Company as FIS plus working capital and surplus funds. It also includes assets held by the Company outside of the Company for Company working capital as well as a capital buffer.

Investment governance

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

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

Risk tolerance

Investment risk tolerances are set by the Risk Committee with recommendation from the IGC. The investment process is driven from the risk tolerance which is determined by the independent Risk function with reference to factors such as the underwriting cycle and the requirements of the capital providers. In a hard underwriting market, capital preservation is paramount in order to support the insurance business and, therefore, the risk tolerance for the capital assets will be low. Conversely, the risk tolerance for the underwriting assets under these circumstances will be relatively high due to the strong cash flow. In a soft underwriting market, the opposite applies. Investment risk is monitored by Investment Management using a market-recognised third-party risk model. Risk reporting is generated by Investment Management and an independent review conducted by the Risk function. These reports are then circulated to the IGC and the Risk Committee.

Asset allocation

A Value at Risk ('VaR') budget is provided by the Board to the IM team consistent with the company risk appetite that maintains the solvency levels in a 1-in-200 year event. The IM team have discretion to set the asset allocation that they judge will provide the appropriate risk/reward balance, whilst respecting the VaR, asset class, liquidity and counterparty limits in the investment guidelines set by the Board. The expected timescale for future cash flows in each currency is calculated by the Actuarial team for policyholder portfolios; the average of these forms the basis of our asset liability duration management. The IGC reviews/challenges the IM asset allocation and investment risk stance on a quarterly basis. The IGC also reviews the investment guidelines approved by the board.

Investment management

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

Notes to the financial statements For the year ended 31 December 2020

14. Financial assets and liabilities (Continued)

e) Financial risk management (continued)

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

	2020				2019			
	Underwriting assets £m	Capital assets £m	Total assets £m	Total %	Underwriting assets £m	Capital assets £m	Total assets £m	Total %
Government securities	507.7	-	507.7	21.0	867.6	-	867.6	32.8
Government agencies/guaranteed bonds	29.5	-	29.5	1.2	49.5	-	49.5	1.9
Asset-backed securities	45.8	-	45.8	1.9	28.9	-	28.9	1.1
Mortgage-backed securities – prime	19.4	-	19.4	0.8	1.5	-	1.5	0.1
Corporate bonds	285.9	-	285.9	11.8	142.9	-	142.9	5.4
Total bonds	**888.3**	**-**	**888.3**	**36.8**	**1,090.4**	**-**	**1,090.4**	**41.3**
Shares and other variable yield securities	4.5	-	4.5	0.2	5.4	-	5.4	0.2
Pooled vehicles	456.2	584.6	1,040.8	43.1	679.7	368.8	1,048.5	39.6
Property funds	-	183.0	183.0	7.6	-	186.3	186.3	7.0
Other liquid investments & cash	221.6	50.6	272.2	11.3	279.2	35.0	314.2	11.9
Other	24.0	-	24.0	1.0	-	-	-	-
Total	**1,594.6**	**818.2**	**2,412.8**	**100.0**	**2,054.7**	**590.1**	**2,644.8**	**100.0**

Market risk

Market risk concerns the risks associated with valuation, interest rates, liquidity and counterparty credit. Foreign exchange risk is described in note 13.

Valuation risk

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

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

Further details of the fair value measurement of financial assets and financial liabilities are included in note 14(e).

The valuation of investments is sensitive to equity risk. The impact on profit before tax of a 5% improvement/deterioration in the total market value of shares would be a £6.1 million gain/loss (2019: £2.3 million gain/loss) when applying a consistent methodology to the previous year.

Interest rate risk

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

Notes to the financial statements
For the year ended 31 December 2020

14. Financial assets and liabilities (Continued)

e) Financial risk management (continued)

The maturity bands of the Company's bond holdings are shown below.

	2020	2019
	Underwriting assets £m	Underwriting assets £m
Less than 1 year	573.9	762.6
1-2 years	179.9	268.6
2-3 years	97.3	55.0
3-4 years	9.4	2.9
4-5 years	0.6	0.1
Over 5 years	27.2	1.2
	888.3	**1,090.4**

The duration of underwriting assets is set with reference to the duration of the underlying liabilities. It should be noted that the liabilities are not currently discounted and therefore their value is not impacted by interest rate movements. Cash is raised, or the duration of the portfolio reduced, if it is believed that yields may rise and therefore capital values will fall. Included in the above is £2.1 million (2019: £4.0 million) of accrued interest.

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

	2020		2019	
Underwriting assets/liabilities	**Assets Years**	**Liabilities Years**	Assets Years	Liabilities Years
Sterling	0.1	2.6	0.1	3.1
US dollar	0.7	3.2	0.9	3.1
Euro	0.2	2.9	0.1	4.4
Canadian dollar	0.5	3.9	1.2	4.0

Liquidity risk

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

Notes to the financial statements
For the year ended 31 December 2020

14. Financial assets and liabilities (Continued)

e) Financial risk management (continued)

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

	Contractual cash flows (undiscounted)					
31 December 2020 **Financial assets**	No stated maturity £m	0-1 yr £m	1-3 yrs £m	3-5 yrs £m	>5 yrs £m	Carrying amount £m
Debt and other fixed income securities	-	578.4	271.9	20.0	26.8	888.3
Shares and other variable yield securities	4.5	-	-	-	-	4.5
Participation in investment pools	290.1	-	-	-	-	290.1
Holdings in collective investment schemes	1,199.5	-	-	-	-	1,199.5
Derivative financial instruments	-	6.4	-	-	-	6.4
Other investments	24.0	-	-	-	-	24.0
Insurance debtors	-	1,251.9	-	-	-	1,251.9
Cash	156.3	-	-	-	-	156.3
Net financial assets	**1,674.4**	**1,836.7**	**271.9**	**20.0**	**26.8**	**3,821.0**
	Expected cash flows (undiscounted)					
Insurance liabilities	No stated maturity £m	0-1 yr £m	1-3 yrs £m	3-5 yrs £m	>5 yrs £m	Carrying amount £m
Outstanding claims	-	1,270.5	1,132.4	493.5	443.8	3,340.2
Less reinsurers' share of outstanding claims	-	(375.5)	(334.7)	(145.9)	(131.2)	(987.3)
Insurance creditors	-	116.1	-	-	-	116.1
Total	**-**	**1,011.1**	**797.7**	**347.6**	**312.6**	**2,469.0**
Difference in contractual cash flows	**1,674.4**	**825.6**	**(525.8)**	**(327.6)**	**(285.8)**	**1,352.0**

	Contractual cash flows (undiscounted)					
31 December 2019 **Financial assets**	No stated maturity £m	0-1 yr £m	1-3 yrs £m	3-5 yrs £m	>5 yrs £m	Carrying amount £m
Debt and other fixed income securities	-	785.6	315.6	4.9	1.3	1,090.4
Shares and other variable yield securities	5.4	-	-	-	-	5.4
Participation in investment pools	195.9	-	-	-	-	195.9
Holdings in collective investment schemes	1,012.7	-	-	-	-	1,012.7
Other investments	155.6	-	-	-	-	155.6
Insurance debtors	-	1,482.9	-	-	-	1,482.9
Cash	105.1	-	-	-	-	105.1
Net financial assets	**1,474.7**	**2,268.5**	**315.6**	**4.9**	**1.3**	**4,048.0**
	Expected cash flows (undiscounted)					
Insurance liabilities	No stated maturity £m	0-1 yr £m	1-3 yrs £m	3-5 yrs £m	>5 yrs £m	Carrying amount £m
Outstanding claims	-	1,215.6	1,160.3	526.9	443.1	3,345.9
Less reinsurers' share of outstanding claims	-	(365.9)	(349.3)	(158.6)	(133.3)	(1,007.1)
Insurance creditors	-	188.8	-	-	-	188.8
Total	**-**	**1,038.5**	**811.0**	**368.3**	**309.8**	**2,527.6**
Difference in contractual cash flows	**1,474.7**	**1,230.0**	**(495.4)**	**(363.4)**	**(308.5)**	**1,520.4**

Notes to the financial statements
For the year ended 31 December 2020

14. Financial assets and liabilities (Continued)

e) Financial risk management (continued)

Debt and other fixed income securities have undiscounted cash flows totalling £897.1 million (2019: £1,107.4 million). These investments are held at fair value through profit and loss at a value of £888.3 million (2019: £1,090.4 million). As a result, the contractual cash flow total does not agree with the carrying amount in the table above.

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

Credit risk

Credit risk is the risk that the Company becomes exposed to loss if a specific counterparty fails to perform its contractual obligations in a timely manner impacting the Company's ability to meet its claims as they fall due. Credit risk can also arise from underlying causes that have an impact upon the creditworthiness of all counterparties of a particular description or geographical location. The Company's credit risk is mitigated by the collateral received from counterparties, details of which are given in note 14(h). The Company is exposed to credit risk in its investment portfolio and with its premium and reinsurance debtors.

31 December 2020	Debt securities £m	%	Participation in investment pools £m	%	Insurance and reinsurance receivables £m	%	Reinsurers' share of outstanding claims £m	%
AAA	590.7	66.5	-	-	-	-	-	-
AA	69.2	7.8	-	-	-	-	98.4	10.0
A	192.7	21.7	-	-	89.0	7.4	575.5	58.3
BBB	33.9	3.8	-	-	-	-	-	-
Other	1.8	0.2	290.1	100.0	1,110.5	92.6	313.4	31.7
	888.3	**100.0**	**290.1**	**100.0**	1,199.5	100.0	987.3	100.0

31 December 2019	Debt securities £m	%	Participation in investment pools £m	%	Insurance and reinsurance receivables £m	%	Reinsurers' share of outstanding claims £m	%
AAA	925.4	84.9	-	-	-	-	-	-
AA	43.2	4.0	-	-	-	-	133.6	13.3
A	107.1	9.8	-	-	109.7	8.1	634.9	63.0
BBB	14.7	1.3	-	-	-	-	-	-
Other	-	-	195.9	100.0	1,247.7	91.9	238.6	23.7
	1,090.4	**100.0**	**195.9**	**100.0**	1,357.4	100.0	1,007.1	100.0

Insurance and reinsurance

The table above includes premium receivables, representing amounts due from policyholders. The quality of these receivables is not graded, but based on historical experience there is limited default risk relating to these amounts.

Also included are reinsurance receivables, which represent the amounts due at 31 December 2020, as well as amounts expected to be recovered on unpaid outstanding claims (including IBNR) in respect of earned risks. These are stated net of provisions for impairment. The credit risk in respect of reinsurance receivables, including reinsurers' share of outstanding claims, is primarily managed by review and approval of reinsurance security by the Reinsurance Security Committee prior to the purchase of the reinsurance contract. Guidelines are set, and monitored, that restrict the purchase of reinsurance security based on the internal ratings for each reinsurer and Standard & Poor's ratings. The Company holds collateral of £531.3 million from certain reinsurers including those that are non-rated as security against potential default. Provisions are made against the amounts due from certain reinsurers, depending on the age of the debt and the current rating assigned to the reinsurer. The impact on profit before tax of a 1% variation in the reinsurance assets would be £9.9 million (2019: £10.0 million).

Notes to the financial statements
For the year ended 31 December 2020

14. Financial assets and liabilities (continued)

e) Financial risk management (continued)

Investments

As well as actual failure of a counterparty to perform its contractual obligations, the price of corporate bond holdings will be affected by investors' perception of a borrower's credit worthiness. Credit risk within the investment funds is managed through the credit research carried out by the investment managers. The investment guidelines are designed to mitigate credit risk by ensuring diversification of the holdings. For each portfolio there are limits to the exposure to single issuers and to the total amount that can be held in each credit quality rating category, as determined by reference to credit rating agencies. At 31 December 2020, directly held bonds accounted for 34.6% of the portfolio (2019: 39.7%), the balance of the portfolio was held mostly in collective investment schemes. The credit ratings on debt securities are BNP Paribas composite ratings based on Standard & Poor's, Moody's and Fitch.

f) Offsetting financial assets and financial liabilities

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

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

The disclosure provided in the tables below includes derivatives that are set off in the Company's statement of financial position at 31 December 2020 there is no designated hedge accounting relationship (2019: £nil).

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

				Related amounts not set off in the statement of financial position		
31 December 2020	**Gross amounts of recognised financial assets £m**	**Gross amounts of recognised financial liabilities set off in the statement of financial position £m**	**Net amounts of financial assets presented in the statement of financial position £m**	**Financial instruments £m**	**Cash collateral received £m**	**Net Amount £m**
Derivative instruments held for trading asset	578.9	(563.3)	15.6	0.3	(20.7)	(4.8)
Derivative instruments held for trading liability	(140.3)	149.5	9.2	4.4	27.2	40.8
Net	**438.6**	**(413.8)**	**24.8**	**4.7**	**6.5**	**36.0**

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

Notes to the financial statements
For the year ended 31 December 2020

14. Financial assets and liabilities (continued)

g) Restricted funds held by the Company

At 31 December 2020, the Syndicate holds restricted funds in the form of trust fund investments, letter of credit (LOC) collaterals, initial margin calls on derivative financial instruments and collateral received from reinsurance counterparties.

Trust funds

The Syndicate holds gross assets of £5,177.0 million (2019: £5,618.5 million), offset by gross liabilities of £4,705.4 million (2019: £5,027.9 million), which are held within individual trust funds. The assets cannot be obtained or used until such time as each Syndicate underwriting year is closed and profits are distributed, or an advance profit release is made. The Funds in Syndicate, as set out in the Statement of changes in member's balance as funds deposited by MS Amlin Corporate Member Limited, represent the restricted capital for regulatory purposes.

Letter of Credit (LOC) collateral

The Syndicate holds AU$150 million (£84.6 million) (2019: AU$150 million, £79.5 million) in a National Australia Bank Limited account as cash collateral for Letters of Credit issued by National Australia Bank Limited to the Lloyd's Australian Trust Fund. This is to enable the Syndicate to transact business in Australia.

Derivative margins and collateral

Derivative instruments traded give rise to collateral being placed with, or received from, external counterparties. At 31 December 2020, included in other receivables and other payables are £10.3 million (2019: £9.5 million) margins and collaterals pledged, and £nil (2019: £nil) margins and collaterals held in relation to listed futures margins and other derivatives respectively.

Reinsurance collateral received

Collateral of £942.4 million (2019: £1,326.0 million) is held in third party trust funds to guarantee the Syndicate against reinsurance counterparties.

Insurance collateral placed

The Syndicate holds £773.1 million (2019: £978.3 million) of collateral in a US trust fund to meet US regulatory requirements, which is recognised as an asset to the Syndicate.

h) Borrowings

Revolving Credit Facility

On 9 October 2020 the Syndicate, through the managing agent, entered into an unsecured £160.0 million multi-currency revolving credit facility with a syndicate of banks led by National Westminster Bank plc. This is a two year facility. An accordion clause is included, where the facility could be increased to £250.0 million, if required.

As at 31 December 2020, no amounts have been drawn on this facility.

Letter of Credit Facilities

The Company has access to a £550.0 million standby Letter of Credit (LOC) facility with a syndicate of banks led by Barclays Bank plc. This facility was initially executed on 1 May 2020, with an initial availability to November 2021. An extension option to November 2022 is available. If a LOC is utilised, the facility will be available for the period of that LOC.

As at 31 December 2020, $326.5 million (£236.5 million) of LOCs have been lodged with Lloyd's in support of the Syndicate. On 12 May 2021, an additional $143.3 million (£103.0 million) of LOCs were lodged with Lloyd's in support of the Syndicate.

The Syndicate, through the managing agent, has access to two LOC facilities detailed below.

1. National Australia Bank Limited – AU$150.0 million

On 12 April 2019, this facility was entered into that provides letters of credit that be issued as collateral for Lloyd's Australian Trust Fund (LATF). This is a one year facility, with two one year extension options at the end of the original term. An accordion clause is included, where the facility could be increased to AU$175.0 million, if required. There were no changes to the facility during the year apart from availing the option to extend the facility by one more year.

As at 31 December 2020, AU$150.0 million (2019: AU$150.0 million) of LOCs have been lodged with the trustees of the LATF. On 25 March 2021, the Syndicate exercised the option to extend the facility for an additional year to 9 May 2022.

Notes to the financial statements
For the year ended 31 December 2020

14. Financial assets and liabilities (continued)

h) **Borrowings (continued)**

2. ING Bank N.V. – $150.0 million

On 20 October 2020, this facility was entered into which provides letters of credit that are issued as collateral for US Credit for Reinsurance Trust Fund (Situs fund). This is a two year facility, with two one year extension options at the end of the original term. An accordion clause is included, where the facility could be increased to $300.0 million, if required.

As at 31 December 2020, $150.0 million of LOCs have been lodged with the trustees of the Situs fund. On 28 April 2021, the Syndicate exercised the accordion clause, and an additional $150.0 million was committed by DBS Bank Ltd. On 7 May 2021, the amount of LOCs lodged with the trustees of the Situs fund was increased to $300.0 million.

i) **Disclosures required under IFRS 4 Insurance Contracts in respect of the deferral of IFRS 9 Financial Instruments**

	Fair value £m	Change in fair value £m
Financial assets that are solely payments of principal and interest		
Loans and receivables	263.8	138.3
Other financial assets		
Cash and cash equivalents	106.6	1.5
Debt securities and other fixed income securities	888.3	202.1
Shares and other variable yield securities	4.5	(0.9)
Participation in investment pools	200.4	4.5
Holdings in collective investment schemes	1,080.6	67.9
Other investments	280.3	(60.1)

Insurance and reinsurance balances have been excluded from the table above as these are out of scope of IFRS 9.

The carrying amounts disclosed above in respect of loans and receivables are reasonably approximate to the fair value at the reporting date.

Notes to the financial statements
For the year ended 31 December 2020

15. Insurance and reinsurance assets and liabilities

a) Net outstanding claims

	2020			2019		
Outstanding claims	**Insurance liabilities £m**	**Reinsurer's share £m**	**Net liabilities £m**	Insurance liabilities £m	Reinsurer's share £m	Net liabilities £m
At 1 January	**3,345.9**	**(1,007.1)**	**2,338.8**	**3,458.9**	**(1,200.6)**	**2,258.3**
Claims incurred during the current year	1,377.6	(391.2)	986.4	1,362.4	(276.8)	1,085.6
Movements arising from prior year claims	(11.5)	(3.9)	(15.4)	51.4	(35.9)	15.5
	1,366.1	(395.1)	971.0	1,413.8	(312.7)	1,101.1
Claims paid during the year	(1,333.2)	399.2	(934.0)	(1,424.8)	476.7	(948.1)
Change in provision for claims	32.9	4.1	37.0	(11.0)	164.0	153.0
Foreign exchange (gains)/losses	(38.6)	15.7	(22.9)	(102.0)	29.5	(72.5)
At 31 December	**3,340.2**	**(987.3)**	**2,352.9**	**3,345.9**	**(1,007.1)**	**2,338.8**

Further information on the calculation of outstanding claims and the risks associated with them is provided in notes 15(h) and 15(m).

Outstanding claims are further analysed between notified outstanding claims and claims incurred but not reported below:

	2020			2019		
Outstanding claims	**Insurance liabilities £m**	**Reinsurer's share £m**	**Net liabilities £m**	**Insurance liabilities £m**	Reinsurer's share £m	Net liabilities £m
Notified outstanding claims	1,625.8	(334.5)	1,292.3	1,726.7	(455.6)	1,271.1
Claims incurred but not reported	1,714.4	(652.8)	1,061.6	1,619.2	(551.5)	1,067.7
	3,340.2	**(987.3)**	**2,352.9**	**3,345.9**	**(1,007.1)**	**2,338.8**

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

	2020			2019		
Outstanding claims	**Insurance liabilities £m**	**Reinsurer's share £m**	**Net liabilities £m**	Insurance liabilities £m	Reinsurer's share £m	Net liabilities £m
Current portion	2,939.4	(839.2)	2,100.2	1,269.9	(356.3)	913.6
Non-current portion	400.8	(148.1)	252.7	2,076.0	(650.8)	1,425.2
	3,340.2	**(987.3)**	**2,352.9**	**3,345.9**	**(1,007.1)**	**2,338.8**

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

	2020 £m	2019 £m
Reinsurers' share of outstanding claims	988.4	1,007.5
Less: provision for impairment of receivables from reinsurers	(1.1)	(0.4)
	987.3	**1,007.1**

Notes to the financial statements
For the year ended 31 December 2020

15. Insurance and reinsurance assets and liabilities (continued)

a) Net outstanding claims

The managing agent assesses the Company's reinsurers' share of outstanding claims for impairment on a quarterly basis by reviewing counterparty payment history and credit grades provided by rating agencies. The credit ratings of the Company's reinsurers' share of outstanding claims are shown in note 14(f).

At 31 December 2020 and 2019 the reinsurers' share of outstanding claims was not overdue. The Company holds collateral of £942.4 million (2019: £1,326.0 million) in relation to reinsurers' share of outstanding claims. Details are included in note 14(h).

b) Claims development

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

Estimate of cumulative gross claims	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	2018 £m	2019 £m	2020 £m	Total £m
At end of underwriting year	528.6	491.0	443.8	497.3	428.2	546.5	1,266.9	944.0	554.6	527.1	
One year later	851.7	803.1	838.6	870.3	915.9	1,226.9	2,138.7	1,669.1	1,215.8		
Two years later	845.4	816.2	832.0	941.8	973.4	1,350.4	2,223.4	1,795.4			
Three years later	856.9	796.1	896.2	985.7	1,031.5	1,339.3	2,226.4				
Four years later	858.6	800.0	870.6	948.0	972.7	1,311.7					
Five years later	847.7	811.7	886.0	934.6	981.4						
Six years later	869.2	812.9	876.9	928.1							
Seven years later	861.0	806.9	862.9								
Eight years later	858.7	804.1									
Nine years later	858.7										
Cumulative payments	824.7	778.0	825.3	849.0	815.1	1,014.5	1,555.0	1,050.5	440.5	127.1	
Estimated balance to pay	34.0	26.1	37.6	79.2	166.4	297.2	671.4	744.8	775.3	400.0	3,232.0
Gross claim reserve 2010 & prior											108.2
Gross claim reserve											3,340.2

Estimate of cumulative net claims	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	2018 £m	2019 £m	2020 £m	Total £m
At end of underwriting year	333.9	358.4	332.1	373.4	330.7	420.2	644.0	561.1	410.6	353.1	
One year later	587.8	599.4	615.6	654.6	707.6	912.2	1,197.7	1,132.6	894.4		
Two years later	589.5	610.6	619.2	710.5	691.8	965.5	1,285.6	1,214.0			
Three years later	624.7	590.5	676.6	800.2	772.4	981.9	1,287.8				
Four years later	626.0	621.8	644.7	758.8	719.8	962.7					
Five years later	615.2	633.8	667.6	751.2	733.9						
Six years later	627.3	629.4	657.1	741.3							
Seven years later	621.5	624.6	647.4								
Eight years later	858.7	804.1									
Nine years later	632.3										
Cumulative payments	606.9	603.8	617.0	673.0	593.6	717.9	852.9	708.1	342.1	89.7	
Estimated balance to pay	25.5	21.8	30.4	68.4	140.2	244.8	434.9	505.9	552.3	263.5	2,287.7
Net claim reserve 2010 & prior											65.2
Net claim reserve											2,352.9

Notes to the financial statements
For the year ended 31 December 2020

15. Insurance and reinsurance assets and liabilities (continued)

b) Claims development (continued)

	2020 £m	2019 £m
Total for all underwriting years		
Net reserves recognised	2,352.9	2,338.8
Amounts recovered from reinsurers	987.3	1,007.1
Gross reserves included in balance sheet	**3,340.2**	**3,345.9**

c) Net unearned premium

	2020			2019		
Unearned premium	**Insurance liabilities £m**	**Reinsurers' share £m**	**Net liabilities £m**	Insurance liabilities £m	Reinsurers' share £m	Net liabilities £m
At 1 January	**1,169.1**	**(178.9)**	**990.2**	**1,334.2**	**(208.1)**	**1,126.1**
Change in provision for unearned premium	(357.0)	50.9	(306.1)	(165.1)	29.2	(135.9)
At 31 December	**812.1**	**(128.0)**	**684.1**	**1,169.1**	**(178.9)**	**990.2**

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

	2020			2019		
Unearned premium	**Insurance liabilities £m**	**Reinsurers' share £m**	**Net liabilities £m**	Insurance liabilities £m	Reinsurers' share £m	Net liabilities £m
Current portion	714.7	(108.8)	605.9	1,083.4	(171.9)	911.5
Non-current portion	97.4	(19.2)	78.2	85.7	(7.0)	78.7
At 31 December	**812.1**	**(128.0)**	**684.1**	**1,169.1**	**(178.9)**	**990.2**

d) Deferred acquisition costs

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

	2020 £m	2019 £m
At 1 January	282.5	324.6
Change in deferred acquisition costs	(90.3)	(42.0)
Foreign exchange	(1.2)	(0.1)
At 31 December	**191.0**	**282.5**

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

	2020 £m	2019 £m
Current portion	166.2	246.4
Non-current portion	24.8	36.1
	191.0	**282.5**

15. Insurance and reinsurance assets and liabilities (continued)

e) Insurance and reinsurance receivables

	2020 £m	2019 £m
Debtors arising out of insurance operations	500.6	624.3
Debtors arising out of reinsurance operations	719.2	752.0
Less provision for impairment of receivables from contract holders and agents	(21.2)	(18.9)
	1,198.6	**1,357.4**

All receivables in the current year and prior year are current.

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

The Company assesses the insurance and reinsurance receivables for impairment on a quarterly basis by reviewing counterparty payment history and for circumstances which may give rise to a dispute or default. At 31 December 2020, insurance and reinsurance receivables at a nominal value of £46.0 million (2019: £47.1 million) were greater than three months overdue and provided for on the basis of credit rating to the value of £21.2 million (2019: £18.9 million).

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

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

	2020 £m	2019 £m
Not overdue or less than 3 months	1,173.8	1,329.2
3 to 6 months	7.9	20.3
6 to 9 months	11.0	8.7
Greater than 9 months	27.1	18.1
	1,219.8	**1,376.3**

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

	2020 £m	2019 £m
At 1 January	18.9	15.5
Increase in the provision	2.3	3.4
At 31 December	**21.2**	**18.9**

f) Insurance and reinsurance payables

	2020 £m	2019 £m
Creditors arising out of direct insurance operations	157.0	217.3
Creditors arising out of reinsurance operations	361.1	287.4
Insurance and reinsurance payables	**518.1**	**504.7**

Of the insurance and reinsurance payables 100% (2019: 100%) of the balances are considered to be current and 0% (2019: 0%) non-current. The carrying amounts disclosed above are reasonably approximate to the fair value at the reporting date. Insurance payables are comprised principally of premium payable for reinsurance, including reinstatement premium.

Notes to the financial statements For the year ended 31 December 2020

15. Insurance and reinsurance assets and liabilities (Continued)

g) Underwriting risk

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

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

A number of controls are deployed to limit the amount of insurance exposure underwritten. Each year a business plan is prepared and agreed which is used to monitor the amount of premium income, and exposure, to be written in total and for each class of business. Progress against this plan is monitored during the year. These premiums and exposures can be exceeded in exceptional circumstances but only with the approval of senior management. Apart from the UK, and some of the international, comprehensive motor liability portfolio, which has unlimited liability, all policies have a per loss limit which caps the size of any individual claims. For larger sum insured risks reinsurance coverage may be purchased. The managing agent uses line guides that determine the maximum liability per policy that can be written for each class (on a gross or net of facultative reinsurance basis) by each underwriter. The Company is also exposed to catastrophe losses which may impact many risks in a single event. Reinsurance is purchased to limit the impact of loss aggregation from such events. These reinsurance arrangements are described in section 15(e).

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

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

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

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

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

h) Regulatory risk

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

Notes to the financial statements For the year ended 31 December 2020

15. Insurance and reinsurance assets and liabilities (Continued)

i) Operational risk

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

j) Reinsurance and other risk mitigation arrangements

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

Additionally, a 17.5% whole account quota share (WAQS) arrangement of the net book of the Company is written by MS Amlin AG (Bermuda branch) each year, commuting after three years in line with the three-year Lloyd's year of account reporting cycle. For 2020 YOA this quota share excludes the Property and Casualty UK book. The share of claims incurred receivable from MS Amlin AG through the WAQS in respect of 2020 was £ 123.6 million (2019: £153.7 million), of which £81.6 million (2019: £112.0 million) were outstanding as at 31 December 2020.

k) Realistic Disaster Scenario (RDS) analysis

The Syndicate has a defined event risk tolerance, which determines the maximum net loss that the Syndicate intends to limit its exposure to major catastrophe event scenarios. At 31 December 2020 the maximum net loss was £119.6 million (2019: £148.7 million). The aforementioned numbers are based on the reporting period's closing FX rates.

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

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

Notes to the financial statements
For the year ended 31 December 2020

15. Insurance and reinsurance assets and liabilities (Continued)

k) **Realistic Disaster Scenario (RDS) analysis (continued)**

Detailed deterministic and probabilistic analyses of catastrophe exposures are carried out every quarter and measured against the event risk tolerances, the business plan, and regulatory guidelines e.g. Lloyd's Franchise Guidelines. The following assumptions and procedures are used in the process:

- The data used reflects the information supplied to the Syndicate by insureds and ceding companies. We check for any limitations with the data e.g. data completeness, data quality, and exposures that could develop during the period e.g. binders. Adjustments are made in accordance with the underwriters that are subsequently reviewed and ratified by the Catastrophe Risk Management Committee (CRMC).
- Exposures are modelled using a mixture of stochastic models and underwriter input to arrive at damage factors – these factors are then applied to the assumed aggregate exposure to produce gross loss estimates. The damage factors are reviewed on a continual basis to ensure assumptions remain appropriate.
- Once Gross numbers are gathered, the in force reinsurance programme is then applied – a provision for reinsurer counterparty failure is analysed to ensure we capture any risks from this perspective.
- Reinstatement premiums both payable and receivable are included in our loss estimates.

Due to the severe nature of these events, there is no guarantee that the assumptions and techniques deployed in calculating the impact of these event are 100% accurate. We review our assumptions when new information comes to light, e.g. post event analysis, scientific or academic research.

Notwithstanding, there could be a situation where the Syndicate experiences a loss from a severe event that exceeds the loss estimate or tolerance. The likelihood of a very severe catastrophe is considered to be remote e.g. beyond the 1 in 100, however these scenarios are modelled simulated events that have considerable uncertainty associated with them but are captured within the probabilistic modelling numbers.

l) **Claims reserving and IBNR**

Insurance liabilities and reinsurance assets: calculation of incurred but not reported (IBNR) and claims development

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

Process and methodology

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

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

Notes to the financial statements
For the year ended 31 December 2020

15. Insurance and reinsurance assets and liabilities (Continued)

IBNR

To establish a provision for IBNR claims, the actuarial team uses their experience and knowledge of the classes of business to estimate the potential future development of the incurred claims for each class for each underwriting year. This is known as the 'best estimate'. In setting the IBNR provision, estimates are made for the ultimate premium and ultimate gross claims value for each underwriting year. Allowance is then made for anticipated reinsurance recoveries to reach a net claim position. Reinsurance recoveries are calculated for outstanding and IBNR claims, sometimes through the use of historical recovery rates or statistical projections, and provisions are made as appropriate for bad debt or possible disputes. The component of ultimate IBNR provision estimates and reinsurance recoveries that relates to future events occurring to the existing portfolio is removed in order to reflect generally accepted accounting practice. Meetings are initially held for each business unit in which underwriters and actuaries discuss the initial proposed estimates and revise them if it is felt necessary. At the next round of meetings, management discuss reserving issues with the actuaries and underwriters and challenge the proposed estimates. At this meeting, management propose the 'margin' for risk to be added to the best estimate, assisted by diagnostics produced from the internal model. The margin is proposed on a net of reinsurance basis only. Further meetings are then held at which further review and challenge is provided by central teams, led by the risk function.

Areas of uncertainty

The reserves established can be more or less than adequate to meet eventual claims arising. The level of uncertainty varies significantly from class to class but can arise from inadequate case reserves for known large losses and catastrophes or from inadequate provision for IBNR claims. The impact on profit of a 1% improvement/deterioration in the total net claims reserves would be £23.5 million gain/loss (2019: £23.4 million).

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

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

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

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

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

COVID-19

All of the uncertainties above apply in the case of the COVID loss estimates, particularly as only a small number of claims have been quantified to date. However, the nature of the event is unusual and therefore there are a number of specific uncertainties around the best estimate that forms part of the result and reserves within the balance sheet. The gross best estimate loss recorded within the income statement is £229.0 million. After reinsurance recoveries of £93.0 million, the net loss recorded is £136.0 million. The best estimate reserves held at year end are £209.0 million gross and £121.0 million net.

Notes to the financial statements
For the year ended 31 December 2020

15. Insurance and reinsurance assets and liabilities (Continued)

Using expert judgement from personnel in Claims, Underwriting and other functions together with external expert advice where appropriate, we believe that we have identified all likely impacted policies. However, it is possible that claims will arise in ways that we have not anticipated and therefore further valid claims are identified. This may manifest itself in the following ways:

- For parts of our P&C business we have estimated the number of policies affected and the average cost per claim. These assumptions could prove to be inaccurate.
- For our inwards reinsurance business, where we are reliant on the insured for information, it will take some time before we receive an accurate assessment of the actual loss.

Our estimate of the claims to be settled reflects our judgment of how policy wordings should respond, taking into account legal opinion, including the findings of the FCA Test Case and subsequent appeal. It is possible that some policyholders will seek to challenge those judgments and interpretations further and therefore uncertainty remains in respect of these estimates.

There is uncertainty over how reinsurers will respond to claims, it being noted that at this stage a formal claim has not yet been made.

The Board believes that the COVID loss included within these financial statements represents a reasonable best estimate based upon the information available at this time. Were any of the estimates to prove inaccurate in relation to the above uncertainties, the gross and net COVID loss estimate would decrease or increase, possibly materially.

16. Intangible assets

	£m
Syndicate participation cost	
At 31 December 2019 and 2020	**63.2**

Syndicate participations represent the ongoing rights to trade on Syndicate 2001 within the Lloyd's insurance market. Syndicate participations are considered to have an indefinite life. As such, they are tested for impairment annually. No impairment has been recognised on these assets as the value of the expected cash flows of the business acquired and contractual rights on that business exceed the carrying value of the assets.

17. Funds in Syndicate (FIS)

The Company is required to hold regulatory capital in order to support its underwriting function through Lloyd's. During the year these assets comprised deposits in the Lloyd's Personal Reserve Fund and other financial investments, which were deposited into the Syndicate 2001 Premium Trust Fund. These assets are held as security for obligations to policyholders and amounts may only be released under certain limited conditions. At year end the market value of Company assets held in syndicate trust funds was £719.1 million (2019: £621.6 million).

Notes to the financial statements For the year ended 31 December 2020

18. Retirement benefit obligations

MS Amlin participates in a number of pension schemes, including defined benefit and defined contribution schemes.

a) The Lloyd's Superannuation Fund funded defined benefit scheme

The Lloyd's Superannuation Fund (the 'Fund') is the defined benefit scheme that MS Amlin participates in the UK, with MS ACS as the sponsoring employer and MS Amlin's obligations are recognised through the Company as part of recharge arrangements.

The Fund is administered by an independent Trustee board, which is legally separate from the Company. The board of Trustees, which must be between five and eight Trustee directors, is made up two independent directors, up to three employer nominated directors and up to three member nominated directors. The board currently consists of two independent directors, two member nominated directors and two employer nominated directors (2019: two, one and two). The Trustees are required by legislation and by its articles of association to act in the interests of the fund and the plan beneficiaries. The Trustees are responsible for the investment strategy of the Fund, in accordance with the Statement of Investment Principles. The Trustees are also responsible for the appointment of custodians and actuaries for the Fund, in addition to consulting with the employers of the Fund.

Historically the Fund has catered for a number of employers in the Lloyd's market. As a consequence of market consolidation, employers closing final salary schemes and some companies failing, during 2013 MS Amlin became the only active market employer of worth in the Fund. The other participating market employer is LSF Pensions Management Limited, which is the administration company supporting the Fund.

Prior to MS Amlin becoming the sole participating market employer, the trustees operated separate notional accounts for the scheme of each contributing employer and also a section relating to former employees of the employers no longer contributing to the fund (known as the orphans' section). Since becoming the sole participating market employer, the trustees have stopped notionally segregating the assets and therefore MS Amlin (through the Company) continues to be ultimately responsible for the assets and liabilities of the Fund, including 100% of the orphan liabilities (2019: 100%).

On 1 July 2020, the Company formalised its support for the Fund's funding arrangements, by providing a guarantee over the future agreed contributions to the Trustee. In addition, the Company was to become a participating employer in the Fund. MS Amlin Corporate Services Limited ('MS ACS') remains the sponsoring employer. In completing its role as participating employer, 9 employees were transferred from MS ACS under Transfer of Undertakings (Protection of Employment) regulations on 1 September 2020.

On 30 November 2020, MS ACS and the Trustee agreed to close the fund to future accrual. This meant that the active members in the Fund were moved to deferred status, and their contributions ceased. The purpose of this change was to provide parity of remuneration offerings to all employees, and it also removed the risk of a Section 75 debt arising for either the Company or MS ACS as employers. The payments under the recovery plan remained unchanged.

Net defined benefit liability

Amounts recognised in the statement of financial position in respect of the LSF are as follows:

	2020 £m	2019 £m
Present value of defined benefit obligation	**(490.5)**	(480.1)
Fair value of scheme assets	**517.8**	494.9
Surplus in scheme	**27.3**	14.8
Restriction to defined benefit asset due to asset ceiling	**(52.4)**	(19.6)
Net defined benefit liability	**(25.1)**	(4.8)

Notes to the financial statements
For the year ended 31 December 2020

18. Retirement benefit obligations (continued)

The movement in the net defined benefit liability is as follows:

	Present value of obligation £m	Fair value of scheme assets £m	Surplus/(Deficit) in scheme £m	Effect of asset ceiling £m	Net defined benefit liability £m
At 1 January 2020	**(480.1)**	**494.9**	**14.8**	**(19.6)**	**(4.8)**
Interest (expense)/income	(9.2)	9.5	**0.3**	-	**0.3**
Current service cost	(0.7)	-	**(0.7)**	-	**(0.7)**
Past service cost	(3.4)	-	**(3.4)**	-	**(3.4)**
Administration expenses	-	(2.5)	**(2.5)**	-	**(2.5)**
Interest on minimum funding requirement	-	-	-	(0.4)	**(0.4)**
(Charged)/credited to statement of profit or loss	**(13.3)**	**7.0**	**(6.3)**	**(0.4)**	**(6.7)**
Re-measurements:					
Actuarial gains and (losses) arising from:					
- changes in financial assumptions	(38.5)	-	**(38.5)**	-	**(38.5)**
- changes in demographic assumptions	(3.0)	-	**(3.0)**	-	**(3.0)**
- experience	2.4	-	**2.4**	-	**2.4**
Return on plan assets, excluding amounts included in interest (expense)/income	-	56.2	**56.2**	-	**56.2**
Changes in asset ceiling, excluding amounts included in interest (expense)/income	-	-		(32.4)	**(32.4)**
(Charged)/credited to statement of other comprehensive income	**(39.1)**	**56.2**	**17.1**	**(32.4)**	**(15.3)**
Participant contributions	(0.1)	0.1	**-**	-	**-**
Benefits paid	42.1	(42.1)	**-**	-	**-**
Employer contributions	-	1.7	**1.7**	-	**1.7**
At 31 December 2020	**(490.5)**	**517.8**	**27.3**	**(52.4)**	**(25.1)**

	Present value of obligation £m	Fair value of scheme assets £m	(Deficit)/Surplus in scheme £m	Effect of asset ceiling £m	Net defined benefit liability £m
At 1 January 2019	**(465.0)**	**459.0**	**(6.0)**	**-**	**(6.0)**
Interest (expense)/income	(11.8)	11.7	(0.1)	-	(0.1)
Current service cost	(0.7)	-	(0.7)	-	(0.7)
Administration expenses	-	(1.8)	(1.8)	-	(1.8)
(Charged)/credited to statement of profit or loss	**(12.5)**	**9.9**	**(2.6)**	**-**	**(2.6)**
Re-measurements:					
Actuarial gains and (losses) arising from:					
- changes in financial assumptions	(37.9)	-	(37.9)	-	(37.9)
- changes in demographic assumptions	2.1	-	2.1	-	2.1
- experience	8.2	-	8.2	-	8.2
Return on plan assets, excluding amounts included in interest (expense)/income	-	49.2	49.2	-	49.2
Changes in asset ceiling, excluding amounts included in interest (expense)/income	-	-	-	(19.6)	(19.6)
(Charged)/credited to statement of other comprehensive income	**(27.6)**	**49.2**	**21.6**	**(19.6)**	**2.0**
Participant contributions	(0.1)	0.1	-	-	-
Benefits paid	25.1	(25.1)	-	-	-
Employer contributions	-	1.8	1.8	-	1.8
At 31 December 2019	**(480.1)**	**494.9**	**14.8**	**(19.6)**	**(4.8)**

Notes to the financial statements For the year ended 31 December 2020

18. Retirement benefit obligations (continued)

GMP equalisation

Following the High Court ruling on 26 October 2018 on Guaranteed Minimum Pension (GMP) equalisation requirements, a £3.0 million past service cost was included in the Fund within the liabilities and profit and loss as at 31 December 2018. Following the 2019 actuarial valuation, the Scheme Actuary refined his calculations of the estimated cost of equalising GMPs. The estimate has increased to 1.0% of liabilities (amounting to £4.9 million). The movement in the liability has been recognised through the Statement of other comprehensive income as at 31 December 2020 as a demographic assumptions change.

A further court case was heard in 2020 concerning whether historic statutory transfer values paid out of schemes before 2018 need to be equalised. The court ruling, made on 20 November 2020, confirmed that all transfers with GMPs built up between 17 May 1990 and 5 April 1997 need to be equalised. An estimate of the additional best-estimate liability has been calculated to be £0.8 million and charged to the Statement of profit or loss as a past service cost.

Fund closure

On 30 November 2020, the Fund was closed to future accrual. At this date all existing active members of the fund stopped accruing future benefits in the fund and their existing accrued benefits became deferred. From 30 November 2020, these deferred benefits revalue in line with statutory increases to retirement age.

This event has resulted in a curtailment loss of £2.6 million as at 30 November 2020, recognised through the Statement of profit or loss as a past service cost. The curtailment loss reflects that pensionable salaries had been frozen since 2006 and prior to the closure this was expected to continue in the future, whereas following the closure these benefits now receive inflationary increases.

Funding arrangements

The financial health of the Fund is assessed every three years by the Trustee's appointed actuary, known as the triennial valuation. Contributions are made at the funding rates recommended by the actuary and typically include adjustments to amortise any funding surplus or shortfall over a period. Amounts paid under the scheme are charged to the Company or other Group companies. The latest triennial valuation of the Fund was as at 31 March 2019 and was dated 1 July 2020 by Mr R Gibson, Fellow of the Institute of Actuaries, and used the projected unit credit actuarial method.

Contributions were paid to provide for the cost of future benefit accrual. For the prior year and up to 30 June 2020, the rate of contribution agreed with the Trustee was 31.5% paid by the employer plus 5% member contributions, in each case of pensionable earnings (capped in March 2006).

On 1 July 2020, MS ACS agreed a schedule of contributions with the Trustee of the Fund, over a recovery plan period of 7 years to 2026, starting in 2020. The schedule requires one payment of £1.2 million, three separate payments of £4.9 million to the Fund, then three payments of £3.7 million to the Fund. In addition, the rate of contribution is to increase to 40.6% from the 31.5% above. Member contributions remain unchanged.

On the same day, the Company formalised its support for the Fund's funding arrangements, by providing a guarantee over the future agreed contributions to the Trustee. In addition, the Company is to become a participating employer in the Fund.

On 30 November 2020, the Fund was closed to future accrual. This meant that the active members of the Fund (employees of the Company, MS ACS and LSF Pensions Management Limited) were moved to deferred status, and their contributions ceased. The payments under the recovery plan remained unchanged.

The total contributions made during the year by the Company were £1.7 million (2019: £1.8 million).

As part of the funding arrangements agreed on 1 July 2020, MS ACS agreed to hold certain funds within an escrow account, to be held as security against certain of the assumptions used in the triennial valuation. This replaces a previous arrangement between MS Amlin Limited and the Trustee. The Company has provided these funds to MS ACS via an intercompany loan. On 31 July 2020, funds of £14.4 million previously held by MS Amlin Limited, were transferred to a new escrow account held by the Company. The value of the escrow account at the reporting date was £14.4 million (2019: £14.4 million).

Restriction to defined benefit asset due to asset ceiling

The Lloyd's Superannuation Fund's rules do not allow the Company to receive a refund of contributions in any circumstances. Therefore, the present value of the future payments was £25.1 million at 31 December 2020 (2019: £4.8 million), to the extent that the contributions were not available after they were paid into the Fund.

Notes to the financial statements
For the year ended 31 December 2020

18. Retirement benefit obligations (continued)

Risks to which the Company is exposed through the LSF

The defined benefit schemes expose the Company to the following risks:

- Changes in bond yields – The discount rate used in calculating the present value of the defined benefit obligation is based upon the yield of high quality debt instruments issued by blue-chip companies, with maturities consistent with those of the defined benefit obligations. A decrease in bond yields is likely to increase the defined benefit obligation.
- Asset volatility – There is a risk that the return on the fund assets underperforms the yield on corporate bonds, thereby reducing the surplus or increasing the deficit.
- Inflation risk – The defined benefit obligation is linked to inflation and therefore should the inflation rate increase, there will be an increase in the fund obligation.
- Life expectancy – The present value of the defined benefit obligation is calculated based on certain mortality assumptions as stated below. An increase in the life expectancy of the funds' beneficiaries will result in an increase in the defined benefit obligation.
- Legislative risk – changes in pension or finance (tax) legislation can have an impact on liabilities in the fund (e.g. the GMP equalisation legislation) and changes in pensions legislation via the Pensions Regulator can add onerous obligations on the governance of the fund (e.g. the new DB funding code).

Significant actuarial assumptions

Actuarial amounts quoted below are for the Company's notional share of the scheme (including its proportion of the Orphan section where applicable).

The significant actuarial assumptions used as at 31 December 2020 were:

	2020 %pa	2019 %pa
Price inflation	2.5	2.9
Rate of increase in pensions payment		
- RPI (maximum 5% pa)	2.5	2.9
- CPI (minimum 3% pa, maximum 5% pa)	3.2	3.2
- RPI (maximum 3% pa)	2.2	2.4
- CPI (maximum 3% pa) where the rules refer to statute	2.0	2.0
Rate of statutory revaluation on deferred pensions	2.1	2.2
Rate of statutory revaluation on post-2009 deferred pensions	2.1	2.2
Discount rate	1.4	2.0

During 2005 the Company reviewed its remaining defined benefit arrangements and made a number of changes to the Funds' operations, which were implemented during 2006. In particular, in order to remove much of the risk associated with salary inflation, the MS Amlin section of the Fund was changed to allow members to continue accruing additional years' service under the schemes, but these accruals would be based on March 2006 pensionable salaries. Future salary increases are pensionable through the defined contribution schemes. Therefore the salary inflation assumption used for the ongoing valuation is now nil% (2019: nil%).

The mortality assumptions used in the 31 December 2020 valuation included the following life expectancies:

	2020		2019	
Life expectancy (years) at age 60 for a member currently:	**Male**	**Female**	Male	Female
Aged 60	21.6	24.3	21.5	24.2
Aged 45	22.9	25.8	22.9	25.7

Notes to the financial statements
For the year ended 31 December 2020

18. Retirement benefit obligations (continued)

Significant actuarial assumptions – sensitivities

The table below shows the impact on the defined benefit obligation that a change in certain key assumptions would have:

Assumption change	**2020 £m**	2019 £m
Increase/decrease in discount rate by 0.25%	(19)/19	(18)/18
Increase/decrease in inflation rate by 0.25%	8/(8)	6/(6)
Increase/decrease in life expectancy of one year at age 64, with proportionate changes at other ages	(18)/18	(16)/16

The above sensitivities of the significant actuarial assumptions have been calculated by changing each assumption in turn whilst all remaining assumptions are held constant. The limitation of this sensitivity analysis is that in practice assumptions may be correlated and therefore are unlikely to change in isolation

Analysis of scheme assets

The analysis of the scheme assets at the reporting date is as follows:

	2020				2019			
	Quoted £m	**Unquoted £m**	**Total £m**	**Total %**	Quoted £m	Unquoted £m	Total £m	Total %
Cash and cash equivalents	-	2.1	2.1	0.4	-	4.3	4.3	0.9
Global Equities	51.9	-	51.9	10.0	53.5	-	53.5	10.8
Diversified Growth Fund	73.3	-	73.3	14.2	71.9	-	71.9	14.5
Government Bonds	-	-	-	-	-	-	-	-
Corporate Bonds	-	-	-	-	-	-	-	-
LDI	133.8	-	133.8	25.9	107.4		107.4	21.7
Contractual Income	155.4	-	155.4	30.0	154.9	-	154.9	31.3
Asset-backed Securities	89.8	-	89.8	17.3	89.9	-	89.9	18.2
Insured Benefits	7.4	-	7.4	1.4	7.4	-	7.4	1.5
Property	4.1	-	4.1	0.8	5.6	-	5.6	1.1
Total directly managed scheme assets	**515.7**	**2.1**	**517.8**	**100.0**	**490.6**	**4.3**	**494.9**	**100.0**

Asset-liability matching strategies

A proportion of the Fund's assets are invested in a liability driven investment portfolio. The objective of this portfolio is to match these assets to a proportion of the Fund's liabilities. The Trustee is responsible for the investment strategy of the Fund, in accordance with the Statement of Investment Principles.

Maturity profile of the defined benefit obligations

The weighted average duration of the defined benefit obligation is 15 years (2019: 15 years).

The expected maturity analysis of the discounted pension benefits is as follows:

	2020 £m	2019 £m
Less than a year	20.3	17.8
Between 1-2 years	21.3	18.7
Between 2-5 years	63.1	55.3
Over 5 years	385.8	388.3
Total	**490.5**	**480.1**

Notes to the financial statements
For the year ended 31 December 2020

18. Retirement benefit obligations (continued)

Expected contributions

The effect of the Fund on the Company's future cash flows as a result of the expected contributions for the year 2021 is expected to total £4.9 million.

b) Defined contribution scheme

The Company's associate company MS ACS employs the majority of all staff who work for the Company. The contributions paid for these employees to the defined contribution scheme are recharged to the Company. The total recharge for these schemes in 2020 was £7.8 million (2019: £7.5 million). It is not practicable to separately identify amounts owed at the year-end by the Company to MS ACS in relation to these schemes from other amounts owed to MS ACS.

19. Called up share capital

Allotted, called up and fully paid	**2020** **£m**	2019 £m
1,700,000 (2019: 1,700,000) ordinary shares of £1 each	**1.7**	1.7
	1.7	1.7

Holders of the above shares are entitled to dividends as declared from time to time and are entitled to one vote per share at general meetings of the Company.

On 4 December 2019, MS Amlin Corporate Services Limited subscribed for four ordinary shares of nominal value of £1 in the Company, for consideration of £828.6 million, by offset against loans payable by the Company.

On 4 December 2019, the Company undertook a capital reduction cancelling and extinguishing four issued ordinary shares of £1, creating a distributable reserve of £828.6 million.

20. Ultimate Parent company

The Company's immediate parent company is Mitsui Sumitomo Insurance Company, Limited ('MSI'), a company incorporated and registered in Japan.

The smallest group in which the results of the company will be included is that of MSI. The Company's ultimate parent company and controlling party is MS&AD Insurance Group Holdings, Inc, a company incorporated in Japan and is the largest group in which the results of the Company are consolidated.

The consolidated financial statements of MS&AD Insurance Group Holdings, Inc are available to the public and may be obtained from the Company Secretary at The Leadenhall Building, 122 Leadenhall Street, London, EC3V 4AG. The ultimate parent company address is Tokyo Sumitomo Twin Building (West Tower), 27-2, Shinkawa 2-chome, Chuo-ku, Tokyo, Japan. The address of MSI is 9, Kanda-Surugadai 3-chome, Chiyoda-ku, Tokyo, Japan.

21. Related parties

Eagle Underwriting Limited

Syndicate 2001 acquired a financial interest of 20% in Eagle Underwriting Limited on 15 September 2016 for CAD0.8m. The Syndicate has the option to increase the stake to 49% by the fifth anniversary of the transaction. During the year Eagle wrote £5.2 million premium (2019: £0.5 million) (net of original brokerage) on behalf of the Syndicate.

Toro Prism Trust

During the year, the Company invested in the Toro Prism Trust which is an open-ended investment unit trust authorised by the Central Bank of Ireland as a UCITS (Undertakings for Collective Investment in Transferable Securities) regulated by the European Union. The trust is controlled by the Group. The market value of the investments in Toro Prism Trust at December 2020 is £897.6 million (2019: £824.8 million), and accrued distribution receivable from the Trust amounts to £6.7 million (2019: £8.4 million).

Notes to the financial statements
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22. Events after the reporting period

Other than the below, there have been no significant events between the reporting date and the date these financial statements were authorised.

COVID-19

On 15 January 2021, the UK Supreme Count delivered its ruling on the test business interruption case brought by the Financial Conduct Authority for the impacts of the COVID-19 on certain policy wordings. The impacts of this ruling has been determined as an adjusting post balance sheet event by management and included in setting the best estimate reserves as at 31 December 2020. Further detail can be found in the Strategic report and note 15(k).

Due to the run off of P&C UK business, it is not expected that the third lockdown in the UK will have a material impact on COVID-19 claims reserves.

Winter Storm Uri (Texas, USA)

Management has been following the development of loss exposures to winter storm Uri in Texas, USA during February 2021. As the event occurred after the balance sheet date, no adjustment has been made to the result presented in these accounts. Given the nature of the event, claims are expected from both Specialty lines and reinsurance exposures. At the date of this report, based upon market loss estimates, the loss estimate represents a greater proportion of Catastrophe losses than are planned to be incurred within the first quarter. However, the estimate is below the expected 2021 catastrophe budget and is therefore has the potential to impact 2021 profit, but is considered unlikely to impact capital at this stage.